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Connecticut Uniform Securities Act

(Transferred from § 36-500, July 3, 1995)

Sec. 36b-31-1. Reserved

Sec. 36b-31-2. Authority

Sections 36b-31-2 to 36b-31-33, inclusive, comprise the regulations adopted by the commissioner pursuant to chapter 672a of the general statutes, “The Connecticut Uniform Securities Act.”

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-3. Definitions

(a) As used in sections 36b-31-2 to 36b-31-33, inclusive, of the regulations, “Act” means chapter 672a of the general statutes, The Connecticut Uniform Securities Act.

(b) In implementing section 36b-3 (2) (C) of the general statutes “any person in this state” refers only to existing employees, partners or directors of the issuer and “issuer” includes any wholly-owned subsidiary of the issuer.

(c) In implementing section 36b-3 (3) of the general statutes, no person shall be deemed a “broker-dealer” solely because such person, within or from this state, makes a tender offer to acquire for his own account of which he is the sole direct or indirect beneficial owner, equity securities of a target company as defined in section 36b-41 (1) of the general statutes.

(d) (1) As used in this subsection, (A) “entity” means a corporation, partnership, association, unincorporated organization, joint stock company, trust, or limited liability company, and (B) “related” means controlling, controlled by, or under common control with, or standing in the relationship of employer or employee with respect to, another person.

(2) In implementing section 36b-3 (6) (G) (ii) of the general statutes, the following shall be deemed a single client: (A) A husband and wife; (B) a child and the child’s parent or guardian when the parent or guardian holds securities or seeks investment advice on behalf of the child; and (C) an entity which was not formed exclusively for the purpose of establishing an advisory relationship with the investment adviser, which maintains operations separate and distinct from those of the investment adviser, and which receives investment advice based on its investment objectives rather than the individual investment objectives of its shareholders, partners or beneficial owners.

(3) In implementing section 36b-3 (6) (G) (ii) of the general statutes, a shareholder, partner or beneficial owner of an entity shall be deemed a single client to the extent that he is, separate and apart from his status as a shareholder, partner or beneficial owner, an investment advisory client of the investment adviser or a related person of the investment adviser.

(4) In implementing section 36b-3 (6) (G) (ii) of the general statutes, a limited partner shall be deemed a single client of a general partner or other person acting as investment adviser to the partnership if the limited partner receives from such person or from a person related to such person (A) investment advisory services of a nature such that the person providing the services would be an investment adviser as defined in section 36b-3 (6) of the general statutes or (B) investment advice to transfer the limited partner’s assets from one limited partnership to another. A limited partner shall not be deemed a single client solely because the provider of investment advisory services offers, promotes, or sells interests in the limited partnership to the limited partner or reports periodically to the limited partners as

a group solely with respect to the performance of, or the plans for, partnership assets or similar matters.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-4. Reserved

Sec. 36b-31-5a. Advertisements by investment advisers

(a) As used in this section “advertisement” includes, but is not limited to, any notice, circular, letter or other written communication addressed to more than one person, or any notice or other announcement in any publication or by radio or television, which offers (1) any analysis, report or publication concerning securities, or which is to be used in making any determination as to when to buy or sell any security, or which security to buy or sell; (2) any graph, chart, formula or other device to be used in making any determination as to who should buy or sell any security, or which security to buy or sell; or (3) any other investment advisory service with regard to securities.

(b) It shall constitute a fraudulent, deceptive or misleading act, practice or course of business for any investment adviser, directly or indirectly, to publish, circulate or distribute any advertisement:

(1) Which refers directly or indirectly to any testimonial of any kind concerning the investment adviser or concerning any advice, analysis, report or other service rendered by the investment adviser;

(2) Which refers, directly or indirectly to past specific recommendations of the investment adviser which were or would have been profitable to any person; provided, this shall not prohibit an advertisement which sets out or offers to furnish a list of all recommendations made by the investment adviser within the immediately preceding period of not less than one year if such advertisement, and such list if it is furnished separately, (A) state the name of each such security recommended, the date and nature of each such recommendation (e.g., whether to buy, sell or hold), the market price at that time, the price at which the recommendation was to be acted upon, and the market price of each such security as of the most recent practicable date and (B) contain the following cautionary legend on the first page in print or type as large as the largest print or type used in the body or text thereof: “It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list”;

(3) Which represents, directly or indirectly, that any graph, chart, formula or other device being offered can in and of itself be used to determine which securities to buy or sell, or when to buy or sell them; or which represents, directly or indirectly, that any graph, chart, formula or other device being offered may assist any person in making decisions as to which securities to buy or sell, or when to buy or sell them, without prominently disclosing in such advertisement such device’s limitations and the difficulties with respect to its use;

(4) Which contains any statement to the effect that any report, analysis, or other service may be furnished free or without charge, unless such report, analysis or other service actually is to be furnished entirely free and without any condition or obligation, directly or indirectly; or

(5) Which contains any untrue statement of a material fact or which is otherwise false or misleading.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-5b. Custody or possession of client funds or securities

(a) It shall constitute a fraudulent, deceptive or misleading act, practice or course of business for any investment adviser having custody or possession of funds or

securities in which any client has any beneficial interest, to take any action, directly or indirectly, with respect to any such funds or securities, unless:

(1) All such securities of each such client are segregated, marked to identify the particular client who has the beneficial interest therein, and held in safekeeping in some place reasonably free from risk of destruction or other loss;

(2) (A) All such funds of such clients are deposited in one or more bank accounts which contain only clients' funds; (B) such account or accounts are maintained in the name of the investment adviser as agent or trustee for such clients; and (C) the investment adviser maintains a separate record for each such account which shows the name and address of the bank where such account is maintained, the dates and amounts of deposits in and withdrawals from such account, and the exact amount of each client's beneficial interest in such account;

(3) Such investment adviser, immediately after accepting custody or possession of such funds or securities from any client, notifies such client in writing of the place and manner in which such funds and securities shall be maintained, and thereafter, if and when there is any change in the place or manner in which such funds or securities are being maintained, gives each such client written notice thereof;

(4) Such investment adviser sends to each client, not less frequently than once every three months, an itemized statement showing the funds and securities in the custody or possession of the investment adviser at the end of such period, and all debits, credits and transactions in such client's account during such period; and

(5) All such funds and securities of clients are verified by actual examination at least once during each calendar year by an independent public accountant at a time which shall be chosen by such accountant without prior notice to the investment adviser. A certificate of such accountant stating that he or she has made an examination of such funds and securities, and describing the nature and extent of such examination, shall be filed with the commissioner promptly after the examination.

(b) This section shall not apply to an investment adviser also registered as a broker-dealer under Section 15 of the Securities Exchange Act of 1934 if such broker-dealer is (1) subject to and in compliance with Securities and Exchange Commission Rule 15c3-1, 17 C.F.R. § 240.15c3-1 or (2) a member of an exchange whose members are exempt from Rule 15c3-1 under paragraph (b) (2) thereof, and the broker-dealer is in compliance with all rules and settled practices of the exchange imposing requirements as to financial responsibility and the segregation of funds or securities carried for the account of customers.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-5c. Disclosures to advisory clients

(a) As used in this section, (1) "contract for impersonal advisory services" means any contract relating solely to the provision of investment advisory services (A) by means of written material or oral statements which do not purport to meet the objectives or needs of specific individuals or accounts, (B) through the issuance of statistical information containing no expression or opinion as to the investment merits of a particular security, or (C) by means of any combination of the foregoing services; (2) "entering into," in reference to an investment advisory contract, does not include an extension or renewal without material change to any such contract which is in effect immediately prior to such extension or renewal; and (3) "investment company contract" means a contract with an investment company registered under the Investment Company Act of 1940 which meets the requirements of Section 15 (c) of that act.

(b) Unless otherwise provided in this section, an investment adviser registered or required to be registered shall, in accordance with this section, furnish each investment advisory client and prospective investment advisory client with a written disclosure statement which may be a copy of Part II of the investment adviser's Form ADV or a written document containing at least the information then so required by Part II of Form ADV. The disclosure statement shall include such other information as the commissioner may require.

(c) (1) Except as provided in subdivision (2) of this subsection, an investment adviser shall deliver the statement required by this section to an investment advisory client or prospective investment advisory client (A) not less than 48 hours before entering into any written or oral investment advisory contract with the client or prospective client or (B) at the time of entering into any such contract, if the client has a right to terminate the contract without penalty within five business days after entering into the contract.

(2) Delivery of the statement required by subdivision (1) of this subsection need not be made in connection with entering into (A) an investment company contract or (B) a contract for impersonal advisory services.

(d) (1) Except as provided in subdivision (2) of this subsection, an investment adviser annually shall, without charge, deliver or offer in writing to deliver upon written request, to each of its clients the statement required by this section. (2) The delivery or offer required by subdivision (1) of this subsection need not be made to a client receiving investment advisory services solely pursuant to (A) an investment company contract or (B) a contract for impersonal advisory services requiring a payment of less than \$200. (3) With respect to a client entering into a contract or receiving investment advisory services pursuant to a contract for impersonal advisory services which requires a payment of \$200 or more, an offer of the type specified in subdivision (1) of this subsection shall also be made at the time of entering into the investment advisory contract. (4) Any statement requested in writing by a client pursuant to an offer required by this subsection shall be mailed or delivered within seven days following receipt of the request.

(e) Nothing in this section shall relieve any investment adviser from any obligation under the Act or sections 36b-31-2 to 36b-31-33, inclusive, of the regulations or under any other federal or state law to disclose any information to its clients or prospective clients not specifically required by this section.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-5d. Statement of advisory fee

A statement in the written advisory contract of an advisory fee based on total or net asset value or of a flat fee constitutes compliance with the requirement in section 36b-5 (b) (1) (A) of the general statutes that the contract provide that the investment adviser not be compensated on the basis of capital gains or capital appreciation.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-5e. Assignment

In implementing section 36b-5 (b) (3) of the general statutes, "assignment" shall not include a transaction not resulting in a change of actual control or management of an investment adviser.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-6a. Broker-dealer and agent registration

(a) No corporation or partnership shall be registered as a broker-dealer without the registration of at least one agent.

(b) A broker-dealer shall file written notice with the commissioner within five days whenever it hires an agent transferred from another broker-dealer, except that such notice shall not be required if the transfer is made in accordance with the temporary transfer procedures under section 36b-31-6d of the regulations.

(c) A broker-dealer shall file written notice with the commissioner no later than 30 days after an agent leaves its employ. When an agent leaves its employ, the notice shall be given on Form U-5.

(d) A transfer of agent registration may be effected only after the commissioner receives written notice from the agent's former employer (Form U-5), the agent's new employer, and the agent. The agent's former employer shall not be required to file such notice if the transfer is made in accordance with the temporary transfer procedures under section 36b-31-6d of the regulations. The agent shall not be required to give such notice if the transfer is made in accordance with the temporary transfer procedures under section 36b-31-6d of the regulations, provided: (1) The agent's prior employment was terminated within the preceding seven days and not for cause and (2) the agent has satisfied the examination requirements under section 36b-31-15e of the regulations.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-6b. Investment adviser and investment adviser agent registration

(a) No corporation or partnership shall be registered as an investment adviser without the registration of at least one investment adviser agent.

(b) An investment adviser shall file written notice with the commissioner within five days whenever it hires an investment adviser agent transferred from another investment adviser, except that such notice shall not be required if the transfer is made in accordance with the temporary transfer procedures under section 36b-31-6d of the regulations.

(c) An investment adviser shall file written notice with the commissioner no later than 30 days after an investment adviser agent leaves its employ. When an investment adviser agent leaves its employ, the notice may be given on Form U-5.

(d) A transfer of investment adviser agent registration may be effected only after the commissioner receives written notice of the change from the investment adviser agent, the investment adviser agent's former employer (Form U-5) and the investment adviser agent's new employer. The investment adviser agent shall not be required to give such notice if the transfer is made in accordance with the temporary transfer procedures under section 36b-31-6d of the regulations, provided the investment adviser agent's prior employment was terminated within the preceding seven days and not for cause.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-6c. Central registration depository

For purposes of sections 36b-6, 36b-7, 36b-12, 36b-13 and 36b-32 of the general statutes, the computerized Central Registration Depository operated by the National Association of Securities Dealers, Inc. and its subsidiaries under an agreement with the North American Securities Administrators Association, Inc. is authorized to accept filed documents and collect fees on behalf of the commissioner.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-6d. Temporary transfer procedures

(a) The commissioner may issue a temporary agent registration and terminate such a registration in accordance with temporary agent transfer procedures under the

Central Registration Depository operated by the National Association of Securities Dealers, Inc. and its subsidiaries, as developed under the North American Securities Administrators Association, Inc. The registration of an agent transferring from one registered broker-dealer to another is not effective unless the requirements under the temporary agent transfer procedures are met by the agent, the broker-dealers involved in the transfer, and the Central Registration Depository.

(b) The commissioner may issue a temporary investment adviser agent registration and terminate such a registration in accordance with temporary investment adviser agent procedures developed in cooperation with the North American Securities Administrators Association, Inc. The registration of an investment adviser agent transferring from one registered investment adviser to another is not effective unless the requirements under the temporary investment adviser agent procedures are met by the investment adviser agent and the investment advisers involved in the transfer.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-6e. Private securities transactions by broker-dealer agents

(a) As used in this section, (1) “private securities transaction” means any securities transaction outside the regular course or scope of an agent’s employment with a broker-dealer, including but not limited to, new offerings of securities which are not registered with the commissioner; provided, transactions executed through another broker-dealer in accordance with Article III, Section 28 of the National Association of Securities Dealers, Inc. Rules of Fair Practice, transactions among immediate family members for which no agent receives any selling compensation, and personal transactions in investment company securities and variable annuities shall be excluded, and (2) “selling compensation” means any compensation paid directly or indirectly from whatever source in connection with or as a result of the purchase or sale of a security, including but not limited to, commissions, finder’s fees, securities and rights to acquire securities, rights of participation in profits, tax benefits, and dissolution proceeds, as a general partner and otherwise, or expense reimbursements.

(b) No agent of a broker-dealer shall participate in any manner in a private securities transaction except in accordance with this section.

(c) Before participating in any private securities transaction, an agent shall provide written notice to the broker-dealer by whom he is employed describing in detail the proposed transaction and his proposed role therein and stating whether he has received or may receive selling compensation in connection with the transaction; provided, in the case of a series of related transactions in which no selling compensation has been or will be received, an agent may provide a single written notice.

(d) In the case of a transaction in which the agent has received or may receive selling compensation, a broker-dealer which has received notice pursuant to subsection (c) of this section shall advise the agent in writing concerning whether the broker-dealer approves or disapproves of the agent’s participation in the proposed transaction. If the broker-dealer approves the agent’s participation in the transaction, the transaction shall be recorded on the books and records of the broker-dealer and the broker-dealer shall supervise the agent’s participation in the transaction as if the transaction were executed on behalf of the broker-dealer. If the broker-dealer disapproves the agent’s participation, the agent shall not participate in the transaction in any manner, directly or indirectly.

(e) A copy of the notice and written statement required by subsections (c) and (d) of this section shall be maintained at the office of the broker-dealer from which

the agent conducts activities on behalf of the broker-dealer and shall be open to inspection by the commissioner.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-6f. Supervision requirements

(a) As used in this section, “manager” means (1) any person who supervises agents or investment adviser agents, as the case may be, either directly or indirectly or (2) any person responsible for the day-to-day operation and supervision of a broker-dealer or investment adviser office located in this state.

(b) Each registered broker-dealer and investment adviser shall establish, enforce and maintain a system for supervising the activities of its agents, investment adviser agents and Connecticut office operations that is reasonably designed to achieve compliance with applicable securities laws and regulations.

(c) The supervisory system shall provide, at a minimum, for the following:

(1) The establishment, implementation and maintenance of written supervisory procedures in accordance with subsection (f) of this section;

(2) The designation of a manager with authority to carry out the supervisory responsibilities of the broker-dealer or investment adviser for each type of business in which it engages and for which broker-dealer or investment adviser registration is required;

(3) For each Connecticut branch office and principal place of business, the designation of a manager who shall be responsible for its day-to-day operation and supervision and, unless otherwise allowed by the commissioner under subsection (d) of this section, who shall be located on the premises of such office on a full time basis;

(4) The assignment of each agent or investment adviser agent to a manager who shall be responsible for supervising the activities of such agent or investment adviser agent;

(5) Reasonable efforts to determine that all supervisory personnel are qualified by virtue of experience or training to carry out their assigned responsibilities; and

(6) The participation by each agent or investment adviser agent, either individually or collectively and no less than annually, in an interview or meeting conducted by persons designated by the broker-dealer or investment adviser at which interview or meeting compliance matters relevant to the activities of the agent or investment adviser agent shall be discussed. The meeting or interview may occur in conjunction with a discussion of other matters and may be conducted at a central or regional location or at the agent’s or investment adviser agent’s place of business.

(d) (1) Notwithstanding the requirements of subsection (c) (3) of this section, the commissioner may, in writing, allow no more than three Connecticut branch offices of a broker-dealer to be supervised by one designated manager, provided that such manager is employed in Connecticut on a full time basis. In making such a determination, the commissioner shall consider all relevant factors, including: (A) The number of agents located at each branch office to be supervised by the designated manager; (B) the nature and variety of securities products offered or sold from each such branch office; (C) the number of customer accounts at each such branch office; (D) the daily volume of securities transactions initiated at each such branch office; (E) the adequacy of the broker-dealer’s existing or proposed supervisory system and procedures; and (F) the broker-dealer’s disciplinary history and the disciplinary history of the agents located at each such branch office.

(2) Any approval by the commissioner under this subsection is subject to immediate revocation if the commissioner determines that there has been a material change in any factor forming a basis for such approval.

(3) Nothing in this subsection limits the commissioner's further authority under section 36b-31-31c of the regulations.

(e) Each broker-dealer and investment adviser shall designate one or more managers who shall review the supervisory system, procedures and inspections implemented by the broker-dealer or investment adviser and take or recommend to senior management appropriate action reasonably designed to achieve compliance with the Act and sections 36b-31-2 to 36b-31-33 of the regulations.

(f) (1) Written supervisory procedures shall set forth the supervisory system established by the broker-dealer or investment adviser pursuant to this section, and shall include the titles, registration status and locations of required supervisory personnel as well as the responsibilities of each supervisory person as they relate to the type of business in which the broker-dealer or investment adviser is engaged. The broker-dealer or investment adviser shall maintain, on an internal record, the names of all persons designated as supervisory personnel and the dates on which such designation is or was effective. (2) Written supervisory procedures shall take into consideration the following factors: (A) Whether agents or investment adviser agents at the location engage in retail sales or other activities involving regular contact with public customers or clients; (B) whether a substantial number of agents or investment adviser agents conduct activities at, or are otherwise supervised from, the location; (C) whether the agents or investment adviser agents are geographically dispersed; and (D) whether the securities or advisory activities are diverse, complex, or both. (3) Each broker-dealer or investment adviser shall amend its written supervisory procedures as appropriate within a reasonable time after changes occur in applicable securities laws and regulations and as changes occur in its supervisory system, and shall communicate such amendments through its organization.

(g) Each broker-dealer shall establish procedures for the review and endorsement, by a manager in writing and on an internal record, of all transactions and all correspondence of its agents relating to the solicitation or execution of any securities transaction.

(h) Each broker-dealer and investment adviser shall establish procedures which ensure that each of their agents and investment adviser agents has complied with section 36b-31-7e of the regulations.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-6g. Multiple registration

(a) No person shall be concurrently registered as an agent of more than one broker-dealer or issuer unless written consent is obtained from the commissioner.

(b) No person shall be concurrently registered as an investment adviser agent of more than one investment adviser unless written consent is obtained from the commissioner.

(c) The commissioner may consent to multiple registration under subsections (a) and (b) of this section if each employer files a written undertaking with the commissioner containing the following information: (1) A statement by each employer that it consents to the multiple employment of the agent or investment adviser agent and setting forth the effective date of the multiple employment and (2) a statement by each employer that it agrees to assume joint and several liability with all other employers for any act or omission of the agent or investment adviser agent during the employment period.

(d) The commissioner may concurrently register an individual as an agent and an investment adviser agent provided that an individual acting in such dual capacity shall obtain prior written consent from his employers to act in such capacity, and

the written consent is filed with the commissioner, except that such consent is not required where both employers are affiliated or under common management and control.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-7a. Broker-dealer applicant experience requirements

(a) Each applicant for broker-dealer registration shall (1) have been engaged in the securities business as a broker-dealer or agent spending a major portion of his working time in the securities business for at least three years within the seven calendar years preceding the date of the application or (2) be otherwise qualified by knowledge and experience as determined by the commissioner. An attorney who has had at least three years of substantial experience in the practice of securities law, an accountant who has had at least three years of substantial experience in the sale of securities and any other person who can demonstrate equivalent knowledge and experience in the sale of securities may be deemed to have sufficient experience for purposes of this subsection.

(b) If the applicant for broker-dealer registration is a partnership, at least two of its active partners, or if there is only one active partner then that one, shall meet the experience requirements of section (a) of this section.

(c) If the applicant for broker-dealer registration is a corporation, at least two of its active officers, or if there is only one active officer then that one, shall meet the experience requirements of subsection (a) of this section.

(d) Persons acting as managers shall meet the experience requirements of subsection (a) of this section. For purposes of this subsection, "manager" means (1) any person who supervises sales personnel either directly or indirectly or (2) any person responsible for the day-to-day operation and supervision of a broker-dealer office located in this state.

(e) A qualifying examination may be substituted for the experience requirements of this section if the commissioner consents.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-7b. Investment adviser experience requirements

(a) Each applicant for investment adviser registration shall (1) have been engaged in the securities business as a broker-dealer, agent, investment adviser or investment adviser agent spending a major portion of his or her working time in the securities business for at least three years within the seven calendar years preceding the date of the application or (2) be otherwise qualified by knowledge and experience as determined by the commissioner. An attorney who has had at least three years of substantial experience in the practice of securities law, an accountant who has had at least three years of substantial experience in the sale of securities or the rendering of advice about the purchase or sale of securities and any other person who can demonstrate equivalent knowledge and experience in the sale of securities or the rendering of investment advice may be deemed to have sufficient experience for purposes of this subsection.

(b) If the applicant for investment adviser registration is a partnership, at least two of its active partners, or if there is only one active partner then that one, shall meet the experience requirements of subsection (a) of this section.

(c) If the applicant for investment adviser registration is a corporation, at least two of its active officers, or if there is only one active officer then that one, shall meet the experience requirements of subsection (a) of this section.

(d) Persons acting as managers shall meet the experience requirements of subsection (a) of this section. For purposes of this subsection, “manager” means (1) any person who supervises investment adviser agents either directly or indirectly or (2) any person responsible for the day-to-day operation and supervision of an investment adviser office in this state.

(e) A qualifying examination may be substituted for the experience requirements of this section if the commissioner consents.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-7c. Registration of real property securities dealers

Those persons who (a) offer for sale units of ownership in real property securities as defined in section 20-329o (2) of the general statutes, and real estate syndicate securities as defined in section 47-91 (c) of the general statutes and (b) are required to be licensed with the Real Estate Commission as real property securities dealers pursuant to section 20-329p of the general statutes, shall be exempt from the Act pursuant to section 20-329bb (b) of the general statutes.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-7d. Successor registration

(a) A broker-dealer or investment adviser seeking to register as a successor shall file (1) a copy of Form BD (excluding Schedule F) or a copy of Form ADV, as the case may be and (2) a list of all registered agents or investment adviser agents of the predecessor associated or to be associated with the successor. A \$50 transfer fee shall be paid for each registered agent or investment adviser agent.

(b) If a registered broker-dealer succeeds to and continues the business of another registered broker-dealer, or a registered investment adviser succeeds to and continues the business of another registered investment adviser, the registration of the predecessor shall be deemed to remain effective as the registration of the successor for a period of 45 days after such succession, provided that the successor files an application for registration on Form BD or Form ADV, as the case may be, within 30 days after such succession.

(c) A Form BD or Form ADV, as the case may be, filed by a broker-dealer or investment adviser that is not registered when such form is filed and which succeeds to and continues the business of a predecessor registered broker-dealer or investment adviser shall be deemed an application for registration filed by the predecessor and adopted by the successor, even though designated as an amendment, it is filed within 30 days of the succession and the succession is based on a change in the predecessor’s date or state of incorporation, form of organization or change in composition of a partnership and the amendment is filed to reflect these changes.

(d) Each person registering as a successor under this section shall pay the commissioner a non-refundable application fee of \$50. There shall be no registration fee for filing Form BD or Form ADV pursuant to this section.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-7e. Requirements for use of trade names by registrants

(a) As used in this section, (1) “advertisement” means material published, or designed for use in, a newspaper, magazine or other periodical, radio, television, telephone or tape recording, videotape display, sign or billboard, motion picture, telephone directory, telecommunication service, or other public medium and (2) “sales literature” means any written or electronic communication distributed or made generally available to customers or the public, which communication does

not meet the foregoing definition of “advertisement.” “Sales literature” includes, but is not limited to, circulars, research reports, market letters, performance reports or summaries, form letters, seminar texts, and reprints or excerpts of any other advertisement, sales literature or published article.

(b) Every person described in subsection (c) of this section shall file with the commissioner a supplement (Form DBA-1) to the initial or renewal application for registration as a broker-dealer, agent, investment adviser or investment adviser agent. Such supplement shall be filed with the initial application for registration or prior to any activity which renders a registrant subject to this section.

(c) The filing requirements in this section apply to any registered broker-dealer, agent, investment adviser or investment adviser agent engaging in any of the following activities and any applicant for registration as a broker-dealer, agent, investment adviser or investment adviser agent planning to engage in either of the following activities upon registration:

(1) Promoting a securities or investment advisory business by means of any advertisement or sales literature wherein the registrant is identified by any name different from that which appears as the registrant’s name on the application filed with the commissioner regardless of whether such filed name also appears on the advertisement or sales literature; or

(2) Providing any written material to a customer or client, including but not limited to a business card, letterhead, contract, account statement, confirmation or receipt, wherein the registrant is identified by a name different from that which appears as the registrant’s name on the application filed with the commissioner regardless of whether such filed name also appears on the written material.

(d) Any supplement filed pursuant to subsection (b) of this section shall remain up-to-date and any material changes to the information included thereon shall immediately be provided in writing to the commissioner.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-8. Reserved

Sec. 36b-31-9a. Statement of financial condition

(a) Each applicant for initial registration as a broker-dealer or investment adviser shall file as part of its application an original statement of financial condition in such detail as to disclose the nature and amount of assets, liabilities and capital as of a date within 60 days of the application filing date. The applicant shall attach to the statement an oath or affirmation made before a person authorized to administer oaths or affirmations indicating that, to the best of the knowledge and belief of the person making the oath or affirmation, the statement of financial condition is true and correct. If the broker-dealer or investment adviser applicant is a sole proprietorship, the oath or affirmation shall be made by the proprietor; if a partnership, by a general partner; and if a corporation, by a duly authorized officer. If the applicant is a broker-dealer and has been in business for one year or more, the statement of financial condition shall be examined in accordance with generally accepted auditing standards and reported upon with an opinion expressed by an independent certified public accountant or independent public accountant. If the applicant is an investment adviser who has been in business for one year or more and (1) will have custody or possession of clients’ funds or securities or (2) will require the prepayment of advisory fees six months or more in advance and in excess of \$500 per client, the statement of financial condition shall be examined in accordance with generally

accepted auditing standards and reported upon with an opinion expressed by an independent certified public accountant or independent public accountant.

(b) The commissioner may make temporary specific exceptions or deferments regarding the requirements in subsection (a) of this section upon a showing of unusual circumstances. Such temporary specific exceptions or deferments may only be made upon a written request to the commissioner and only written approval from the commissioner shall be regarded as binding.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-9b. Net capital requirements for broker-dealers

(a) Each broker-dealer applicant and registrant shall have and maintain the minimum net capital required by Securities and Exchange Commission Rule 15c3-1, 17 C.F.R. § 240.15c3-1, as amended, and shall comply with Securities and Exchange Commission Rule 15c3-3, 17 C.F.R. § 240.15c3-3, governing customer protection, reserves and custody of securities.

(b) Each broker-dealer applicant and registrant whose net capital at any time is less than the minimum required by Securities and Exchange Commission Rule 15c3-1, or whose total outstanding principal amounts of satisfactory subordination agreements exceed the maximum allowable for a period in excess of 90 days in accordance with Securities and Exchange Commission Rule 15c3-1 (d), shall (1) give telegraphic notice to the commissioner as required by Securities and Exchange Commission Rule 17a-11(a) (1), 17 C.F.R. § 240.17a-11(a) (1), and (2) within 24 hours thereafter, file with the commissioner an up-to-date statement of financial condition and such supplemental schedules and reports which are reasonably necessary to accurately reflect the total financial position of the broker-dealer applicant or registrant. Such statement shall include, without limitation, a statement of revenues and expenses and a statement of sources and uses of funds. Such statement shall be signed and sworn to by the person making it and shall state that the facts it contains are true to that person's own knowledge.

(c) If the computations specified in subsection (a) of this section show, at any point during the month, that the broker-dealer applicant or registrant's net capital is less than the minimum required, the broker-dealer applicant or registrant shall file with the commissioner within 10 business days after the end of each month thereafter all of the information required by subsection (b) (2) of this section until three successive months, or such longer period as the commissioner deems appropriate and necessary, have elapsed.

(d) Upon written application, the commissioner may exempt from subsection (a) of this section, either unconditionally or on specified terms and conditions, any broker-dealer applicant or registrant not registered with the United States Securities and Exchange Commission or a member of a self-regulatory organization, which satisfies the commissioner that, because of the special nature of its business, its financial position and the safeguards it has established for the protection of customer funds and securities, it is not necessary in the public interest or for the protection of investors to subject the applicant or registrant to the provisions of subsection (a) of this section.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-9c. Minimum capital requirements for investment advisers

(a) Each investment adviser applicant and registrant shall have and maintain tangible assets in excess of liabilities less satisfactory subordination agreements to the extent of at least \$1,000.

(b) Each investment adviser applicant and registrant whose tangible assets in excess of liabilities at any time are less than the minimum required by subsection (a) of this section shall (1) on the same day that its tangible assets over liabilities become less than the required minimum, file with the commissioner written notice of the deficiency and (2) within 24 hours thereafter, file with the commissioner an up-to-date statement of financial condition and such supplemental schedules and reports which are reasonably necessary to accurately reflect the total financial position of the investment adviser applicant or registrant. Such statement shall include, but not be limited to, a statement of revenues and expenses and a statement of sources and uses of funds. Such up-to-date statement shall be signed and sworn to by the person making it and shall state that the facts it contains are true to that person's own knowledge.

(c) If the computations specified in subsection (a) of this section show, at any point during the month, that the investment adviser applicant's or registrant's tangible liabilities are less than the minimum required, the investment adviser applicant or registrant shall file with the commissioner within 10 business days after the end of each month thereafter all of the information required by subsection (b) (2) of this section until three successive months, or such longer period as the commissioner deems appropriate and necessary, have elapsed.

(Effective August 22, 1994, transferred July 3, 1995)

Secs. 36b-31-10—36b-31-13. Reserved

Sec. 36b-31-14a. Record keeping requirements for registered broker-dealers

(a) Every registered broker-dealer shall keep and maintain, open to inspection by the commissioner, the books and records required to be kept by the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder. Such books and records shall be kept true, accurate and current and shall be preserved for such periods of time and in such places as specified by the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder. Compliance with the requirements of the United States Securities and Exchange Commission concerning preservation of records in an electronic medium is deemed compliance with this subsection.

(b) In addition to the items required by subsection (a) of this section, every registered broker-dealer shall keep and maintain the following records, open to inspection by the commissioner:

(1) A separate file containing all written complaints submitted by customers to the broker-dealer or its agents or a separate record clearly referencing the files connected to such complaints together with the final disposition thereof, if applicable. For purposes of this subdivision, "complaint" means any written statement or record of an oral statement of a customer or any person acting on behalf of a customer alleging a grievance involving the activities of person under the control of the broker-dealer in connection with the solicitation or execution of any securities transaction or the disposition of securities or funds of that customer;

(2) A completed customer information document for each customer account opened on or after January 1, 1995 where at least one beneficial owner of the account is a natural person and such natural person is located in Connecticut or the account is serviced by an agent employed at a Connecticut office of the broker-dealer. Each such document shall contain (A) the name, address, telephone number and age of each beneficial owner of the account as of the date the account is opened, and all subsequent changes to the address and telephone number of each beneficial

owner; (B) information on whether the account was solicited; (C) the current approximate annual income and net worth (exclusive of home, furnishings and automobiles) of each beneficial owner; (D) the investment objective of each beneficial owner and whether there was any prior investment activity by each beneficial owner; and (E) whether the account was opened in connection with an order to purchase or sell a security;

(3) If the broker-dealer is a partnership, all partnership agreements and, if the broker-dealer is a corporation, all articles of incorporation, amendments thereto, by-laws, minute books and stock certificate books of the broker-dealer. Such partnership and corporate records shall be preserved until at least three years after termination of the enterprise; and

(4) A separate file containing copies of all advertising published, circulated or broadcast in or from Connecticut by the broker-dealer in the conduct of its securities business.

(c) The records specified in subsection (b) of this section shall be kept true, accurate and current and shall be preserved in an easily accessible place for a period of not less than five years from the end of the fiscal year during which the last entry was made on such record, unless otherwise specified. Compliance with the requirements of the United States Securities and Exchange Commission concerning preservation of records in an electronic medium is deemed compliance with this subsection.

(d) Every registered broker-dealer shall keep and maintain at every Connecticut branch office, open to inspection by the commissioner, the following records relating to the operations of that branch office:

(1) For each agent employed at that office, a securities holding record for each customer whose account is serviced by such agent. The securities holding record shall include the customer's name, address, account number, and a chronological listing of the names and amount of all securities purchased or sold for the account of the customer, including the date of each transaction, the unit purchase or sales price;

(2) A litigation file documenting all criminal, civil, administrative and arbitration actions, including the disposition thereof, filed against the broker-dealer or any of its personnel relating to the securities activities of that office;

(3) The information contained in the confirmations of purchases and sales of securities sent to each customer of that office;

(4) Commission reports showing the amount of commissions earned by each agent located at that office or under the control or supervision of that office;

(5) A list of the names and positions of every employee, independent contractor or other person providing securities-related or clerical services in or from that office, and the employee identification number for each agent;

(6) Documentation reflecting the broker-dealer's compliance with Rule 15g, 17 C.F.R. § 240.15g, promulgated under the Securities Exchange Act of 1934 for each account serviced by that office;

(7) A copy of the broker-dealer's compliance and supervisory procedures, including documentation that every agent located at that office or under the control or supervision of that office has been provided with a copy of such procedures;

(8) A file containing any and all correspondence disseminated to or received from the public in connection with the business of that office;

(9) A memorandum of each brokerage order originating from that office, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. Such memorandum shall show the terms and conditions

of the order or instructions and of any modification or cancellation thereof, the account for which entered, the time of entry, the price at which executed and, to the extent feasible, the time of execution or cancellation and whether the transaction was solicited or unsolicited. Orders entered pursuant to the exercise of discretionary power by such broker-dealer, or any employee thereof, shall be so designated. As used in this subdivision, “instruction” includes instructions between partners and employees of a broker-dealer, and “time of entry” means the time when such broker-dealer transmits the order or instruction for execution or, if it is not transmitted, the time when it is received;

(10) A list or other record of all accounts of customers of that office in which the broker-dealer is vested with any discretionary power with respect to the funds, securities or transactions of such customers;

(11) Copies of all powers of attorney and other evidence reflecting the grant of discretionary authority with respect to accounts of customers of that office;

(12) Copies of all written agreements entered into by such broker-dealer with respect to accounts of customers of that office, including, but not limited to, margin, lending, options and investment advisory agreements;

(13) A separate file containing copies of all advertising published, circulated or broadcast upon the initiative of that office which relates to the securities business conducted from that office; and

(14) Those records specified in subdivisions (1) and (2) of subsection (b) of this section which relate to the business of that office.

(e) The records described in subsection (d) of this section shall be kept true, accurate and current and shall be (1) preserved in the branch office for a period of not less than five years from the end of the fiscal year during which the last entry was made on such record or (2) kept and maintained, open to inspection by the commissioner, at the principal place of business of each registered broker-dealer without a Connecticut branch office if such principal place of business is located within Connecticut, for a period of not less than five years from the end of the fiscal year during which the last entry was made on such record. After a period of three years from the end of the fiscal year during which the last entry was made, such records may be preserved in an easily accessible place. Compliance with the requirements of the United States Securities and Exchange Commission concerning preservation of records in an electronic medium is deemed compliance with this subsection.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-14b. Record keeping requirements for registered investment advisers

(a) Every registered investment adviser shall keep and maintain, open to inspection by the commissioner, the books and records required to be kept by the Investment Advisers Act of 1940, as amended, and the rules and regulations thereunder. Such books and records shall be kept true, accurate and current and shall be preserved for such periods of time and in such places as specified by the Investment Advisers Act of 1940, as amended, and the rules and regulations thereunder. Compliance with the requirements of the United States Securities and Exchange Commission concerning preservation of records in an electronic medium is deemed compliance with this subsection.

(b) In addition to the items required by subsection (a) of this section, each registered investment adviser shall keep and maintain the following records at its principal place of business, open to inspection by the commissioner:

(1) A separate file containing all written complaints submitted by clients to the investment adviser or its investment adviser agents or a separate record clearly referencing the files connected to such complaints together with the final disposition thereof, if applicable. As used in this subdivision, "complaint" means any written statement or record of an oral statement of a client or any person acting on behalf of a client alleging a grievance involving the activities of persons under the control of the investment adviser in connection with the solicitation or execution of any investment advisory services or the disposition of securities or funds of that client;

(2) A completed client information document for each investment advisory account opened on or after January 1, 1995 where at least one beneficial owner of the account is a natural person and such natural person is located in Connecticut or the account is serviced by a Connecticut office of the investment adviser. Each such document shall contain (A) the name, address, telephone number and age of each beneficial owner of the account as of the date the account is opened, and all subsequent changes to the address and telephone number of each beneficial owner; (B) information on whether the account was solicited; (C) the current approximate annual income and net worth (exclusive of home, furnishings and automobiles) of each beneficial owner; (D) the investment objective of each beneficial owner; and (E) whether there was any prior investment activity by each beneficial owner;

(3) If the investment adviser is a partnership, all partnership agreements and, if the investment adviser is a corporation, all articles of incorporation, amendments thereto, by-laws, minute books and stock certificate books of the investment adviser. Such partnership and corporate records shall be preserved until at least three years after termination of the enterprise; and

(4) A separate file containing copies of all advertising published, circulated or broadcast in or from Connecticut by the investment adviser in the conduct of its investment advisory business.

(c) The records specified in subsection (b) of this section shall be kept true, accurate and current and shall be preserved for a period of not less than five years from the end of the fiscal year during which the last entry was made on such record, unless otherwise specified. Compliance with the requirements of the United States Securities and Exchange Commission concerning preservation of records in an electronic medium is deemed compliance with this subsection.

(d) Each registered investment adviser shall keep and maintain at every Connecticut branch office, open to inspection by the commissioner, the following records relating to the operations of that branch office:

(1) A litigation file documenting all criminal, civil, administrative and arbitration actions, including the disposition thereof, filed against the investment adviser or any of its personnel relating to the investment advisory activities of that office;

(2) Copies of confirmations of purchases and sales of securities relating to accounts of that office over which the investment adviser is vested with discretionary authority;

(3) Reports showing the amount of compensation earned by each investment adviser agent employed at that office;

(4) A list of the names and positions of every employee, independent contractor or other person providing investment advisory related or clerical services in or from that office, and the employee identification number for each investment adviser agent;

(5) A copy of the investment adviser's compliance and supervisory procedures, including documentation that every investment adviser agent located at that office or under the control or supervision of that office has been provided with a copy of such procedures;

(6) A file containing any and all correspondence disseminated to or received from the public in connection with the business of that office;

(7) A list or other record of all accounts of clients of that office in which the investment adviser is vested with any discretionary power with respect to the funds, securities or transactions of such clients;

(8) Copies of all powers of attorney and other evidence reflecting the grant of discretionary authority with respect to accounts of clients of that office;

(9) Copies of all written agreements entered into by such investment adviser with respect to accounts of clients of that office;

(10) A separate file containing copies of all advertising published, circulated or broadcast upon the initiative of that office which relates to the investment advisory business conducted from that office; and

(11) Those records specified in subdivisions (1) and (2) of subsection (b) of this section which relate to the business of that office.

(e) The records described in subsection (d) of this section shall be kept true, accurate and current and shall be (1) preserved in the branch office for a period of not less than five years from the end of the fiscal year during which the last entry was made on such record or (2) kept and maintained, open to inspection by the commissioner, at the principal place of business of each registered investment adviser without a Connecticut branch office if such principal place of business is located within Connecticut, for a period of not less than five years from the end of the fiscal year during which the last entry was made on such record. After a period of three years from the end of the fiscal year during which the last entry was made, such records may be preserved in an easily accessible place. Compliance with the requirements of the United States Securities and Exchange Commission concerning preservation of records in an electronic medium is deemed compliance with this subsection.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-14c. Filing of financial reports by broker-dealers

(a) Each registered broker-dealer shall annually file with the commissioner, or, subject to the conditions set forth in subsection (b) of this section, with the National Association of Securities Dealers, Inc., on a calendar or fiscal year basis, a financial report (1) audited by an independent public accountant or independent certified public accountant and (2) containing the information required by Securities and Exchange Commission Rule 17a-5 (d), 17 C.F.R. § 240.17a-5 (d). The report shall be filed not more than 60 days following the end of the calendar or fiscal year. If the date of the filing exceeds such 60-day requirement, an unaudited statement similar in all respects shall also be filed and shall not be dated more than 60 days prior to the filing.

(b) The annual filing described in subsection (a) of this section may be made with the National Association of Securities Dealers, Inc. subject to the following conditions: The broker-dealer (1) shall be, and continue to be, a member of a self-regulatory organization registered under federal laws administered by the United States Securities and Exchange Commission; (2) shall file annual audited financial reports with the self-regulatory organization of which it is a member; (3) shall be current in filing with such self-regulatory organization all required financial reports, including, without limitation, the annual audited financial report; (4) shall undertake in writing to provide immediate telegraphic notice to the commissioner within 24 hours if at any time its net capital becomes less than the minimum prescribed in section 36b-31-9b (a) of the regulations; and (5) shall undertake in writing to provide

upon request by the commissioner, and within 24 hours, any financial reports, statements, supplements and amendments required by subsection (a) of this section and by subsection (a) of section 36b-31-14a of the regulations.

(c) If an accountant is changed as a result of a disagreement between the client and the accountant concerning the carrying of assets or the disclosure of potential or actual liabilities, the commissioner shall be so notified in writing within 10 days following the date of the change.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-14d. Filing of financial reports by investment advisers

(a) Each registered investment adviser shall, within 90 days following the end of its fiscal or calendar year, file with the commissioner a report of its financial condition as of the end of its fiscal year. Such report shall be examined in accordance with generally accepted auditing standards and reported upon with an opinion expressed by an independent certified public accountant or independent public accountant if the investment adviser (1) has custody or possession of clients' funds or securities or (2) requires the prepayment of advisory fees six months or more in advance and in excess of \$500 per client. If the date of the filing exceeds the 90-day requirement, an unaudited statement similar in all respects shall also be filed and shall not be dated more than 90 days prior to the filing.

(b) If an accountant is changed as a result of a disagreement between the client and the accountant concerning the carrying of assets or the disclosure of potential or actual liabilities, the commissioner shall be so notified in writing within 10 days following the date of the change.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-14e. Duty to amend information previously filed

(a) If the information contained in any application for registration as a broker-dealer, agent, investment adviser or investment adviser agent, or in any amendment thereto, is or becomes inaccurate or incomplete in any material respect for any reason, the applicant or registrant shall promptly file a correcting amendment with the commissioner.

(b) For purposes of this section, an application or any amendment thereto filed by a broker-dealer, agent, investment adviser or investment adviser agent shall be deemed materially incomplete if it fails to disclose (1) any civil, criminal, administrative or self-regulatory organization complaint or notice of charges which may result in an affirmative answer on Form BD, Form ADV or Form U-4 or (2) information on the disposition, including any decision, order or sanction, resulting from the complaint or notice of charges described in subdivision (1) of this subsection.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-14f. Examinations by commissioner

(a) For purposes of this section, (1) "commissioner" includes any representative of the commissioner conducting an examination and (2) "records" includes, but is not limited to, diaries, logs, notes, memoranda, reports, advisories, updates, ledgers, journals, visual and audio recordings, manual and computer records and related software, and any summary, outline and index thereof.

(b) A registered broker-dealer or investment adviser shall (1) make its records available to the commissioner in readable form; (2) provide personnel and equipment necessary to the conduct of the examination, including but not limited to assistance in the analysis of computer generated records; (3) provide copies or computer

printouts of records when so requested; and (4) furnish access to all areas of its securities or investment advisory operations conducted on or off the premises and otherwise facilitate the examination.

(c) Required records may be examined at the location where they are maintained or with respect to records not maintained at a Connecticut location, at any other reasonable location as determined by the commissioner.

(d) Upon the request of the commissioner, a registered broker-dealer or investment adviser shall produce and furnish to the commissioner a list of all records relating to the business conducted from that location.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-15a. Dishonest or unethical business practices by broker-dealers

(a) In implementing section 36b-15 (a) (2) (H) of the general statutes, the following shall be deemed “dishonest or unethical practices in the securities . . . business” by broker-dealers without limiting those terms to the following practices:

(1) In a principal transaction, stating or implying to the customer that the agent would not receive a commission or other similar remuneration on a transaction when, in fact, the agent would receive such commission or remuneration;

(2) Recommending to a customer the purchase, sale or exchange of any security without reasonable grounds for believing that the recommendation is suitable for such customer based on the facts, if any, disclosed by the customer after reasonable inquiry as to the customer’s other securities holdings and as to the customer’s financial situation and needs;

(3) Causing any unreasonable delay under the circumstances in the requested delivery of securities purchased and fully paid for by any of the broker-dealer’s customers or in the payment upon request of free credit balances of any of the broker-dealer’s customers;

(4) Causing or inducing trading in a customer’s account which is excessive in size or frequency in view of the customer’s financial situation and needs as disclosed by the customer;

(5) Executing a transaction on behalf of a customer without authority to do so;

(6) Exercising any discretionary power in effecting a transaction for a customer’s account without first obtaining written discretionary authority from the customer unless such discretionary power relates only to the price at which or the time when an order given by a customer for the purchase or sale of a definite amount of a specific security shall be executed;

(7) Extending credit to a customer in violation of the Securities Exchange Act of 1934 or the regulations of the Federal Reserve Board;

(8) Failing to provide a customer with a copy of the completed customer information document specified in section 36b-31-14a (b) (2) of the regulations (A) within 10 days after the customer’s account is first established on the books and records of the broker-dealer, or (B) within 10 days after any material amendment is made to the customer information document. A material amendment is presumed to exist in the event the broker-dealer receives from the customer and records on the customer information document, changes to the customer’s annual income, net worth, or investment objectives. For purposes of this subdivision, a “customer” means any person for whom a customer information document needs to be kept and maintained under section 36b-31-14a (b) (2) of the regulations.

(9) Executing any transaction in a margin account without obtaining from the customer a written margin agreement within 10 business days following consummation of the initial transaction in the margin account;

(10) Failing to segregate a customer's fully paid-for or excess margin securities;

(11) Hypothecating a customer's securities unless written consent of the customer is first obtained;

(12) In over-the-counter transactions, whether in listed or unlisted securities, where a broker-dealer buys for its own account from its customer, or sells for its own account to its customer, buying or selling at a price which is not fair, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that the broker-dealer is entitled to a profit; and if the broker-dealer acts as agent for its customer in any such transaction, charging its customer more than a fair commission or service charge, taking into consideration all relevant circumstances, including market conditions, with respect to such security at the time of the transaction, the expense of executing the order and the value of any service the broker-dealer may have rendered by reason of its experience in, and knowledge of, such security and the market therefore;

(13) Entering into a transaction for its own account with a customer in a security at a price not reasonably related to the current market price of the security, or charging a commission which is not reasonable;

(14) Failing to establish written supervisory procedures and a system for applying them which may reasonably be expected to prevent and/or detect violations of the Act or sections 36b-31-2 to 36b-31-33, inclusive, of the regulations;

(15) Executing a transaction to purchase or write an option contract without obtaining from the customer a written option agreement within 10 days following consummation of the transaction;

(16) Failing to comply with Rule 15c2-8, 17 C.F.R. 240.15c2-8, under the Securities Exchange Act of 1934;

(17) Representing that a security is being offered to a customer "at the market" or at a price related to the market price unless the broker-dealer knows or has reasonable grounds to believe that a market for the security exists other than that created or controlled by the broker-dealer or by any person for whom the broker-dealer is acting or with whom the broker-dealer is associated in the distribution, or any person controlling, controlled by or under common control with the broker-dealer;

(18) Effecting any transaction in, or inducing the purchase or sale of, any security by means of any manipulative, deceptive or fraudulent device, practice, plan, program, design or contrivance, including, but not limited to, the following: (A) Effecting any transaction in a security which involves no change in the beneficial ownership of that security; (B) entering one or more orders for the purchase or sale of any security knowing that an order or orders of substantially the same size, entered at substantially the same time and price for the sale of such security have been or will be entered by or for the same or different parties to create a false or misleading appearance of active trading in the security or a false or misleading appearance with respect to the market for the security; provided, nothing in this subdivision shall prohibit a broker-dealer from entering bona fide agency cross transactions for its customers; and (C) effecting, alone or with one or more persons, a series of transactions in any one security creating actual or apparent active trading in such security or raising or depressing the price of such security for the purpose of inducing the purchase or sale of such security by others;

(19) Guaranteeing a customer against loss in any securities account of that customer carried by the broker-dealer or in any securities transaction effected by the broker-dealer with or for such customer;

(20) Using any advertising, research materials or sales presentation in such a manner as to be deceptive or misleading or which would have the effect of detracting from, superseding or defeating the purpose or effect of any prospectus or disclosure document;

(21) Where the broker-dealer is controlled by, controlling, or under common control with, the issuer of any security, failing to disclose to a customer, before entering into any contract with or for such customer for the purchase or sale of such security, the existence of such control. If such disclosure is not made in writing, it shall be supplemented by the giving or sending of a written disclosure at or before the completion of the transaction;

(22) Failing to comply with Rule 15g, 17 C.F.R. § 240.15g, Under the Securities Exchange Act of 1934; and

(23) Failing to comply with any securities-related arbitration award, where a timely motion to vacate or modify such award has not been made pursuant to applicable law or where such a motion has been denied.

(b) In construing the term “dishonest or unethical practices in the securities . . . business” as used in this section and in section 36b-15 (a) (2) (H) of the general statutes, the commissioner may consider whether the conduct in question is proscribed by any rule of a national securities exchange or self-regulatory organization registered under federal securities laws administered by the United States Securities and Exchange Commission.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-15b. Dishonest or unethical business practices by agents

(a) In implementing section 36b-15 (a) (2) (H) of the general statutes, the following shall be deemed “dishonest or unethical practices in the securities . . . business” by agents without limiting those terms to the following practices:

(1) Borrowing money or securities from an account carried for a customer without the customer’s prior consent and without notice to the broker-dealer whom the agent represents;

(2) Engaging in conduct prohibited by section 36b-31-6e of the regulations;

(3) Operating an account under a fictitious name, unless disclosed to the broker-dealer whom the agent represents;

(4) Sharing directly or indirectly in profits or losses in the account of any customer without the prior written authorization of the customer and of the broker-dealer carrying the account; and such sharing in the profits and losses of an account shall be only in direct proportion to the financial contributions made to such account by the agent;

(5) Dividing or otherwise splitting commissions, profits or other compensation receivable in connection with the purchase or sale of securities in this state with any person not registered in this state and employed by the same broker-dealer;

(6) Where the agent is concurrently registered as an agent of more than one broker-dealer, as an agent of a broker-dealer and an agent of an issuer, or as an agent of a broker-dealer and an investment adviser agent, failing to disclose to the customer in writing the multiple capacity in which the agent is acting;

(7) Effecting transactions in securities products concerning which the agent has not taken and successfully passed an examination given by a self-regulatory organization registered under the Securities Exchange Act of 1934 which would qualify the agent to sell, offer to sell or buy such products; and

(8) Engaging in any of the practices specified in subdivisions (1), (2), (4) to (6), inclusive, (9), (12), (13), (15) to (21), inclusive, and (23) of section 36b-31-15a (a) of the regulations.

(b) The finding that an agent has engaged in any of the practices described in subsection (a) of this section shall not in and of itself operate as a finding that the broker-dealer whom the agent represents has engaged in such practice or practices.

(c) In construing the term “dishonest or unethical practices in the securities . . . business” as used in this section and in section 36b-15 (a) (2) (H) of the general statutes, the commissioner may consider whether the conduct in question is proscribed by any rule of a national securities exchange or self-regulatory organization registered under federal securities laws administered by the United States Securities and Exchange Commission.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-15c. Dishonest or unethical business practices by investment advisers

(a) In implementing section 36b-15 (a) (2) (H) of the general statutes, the following shall be deemed “dishonest or unethical practices in the securities . . . business” by investment advisers without limiting those terms to the following practices:

(1) Recommending to a client to whom investment supervisory, management or consulting services are provided the purchase, sale or exchange of any security without reasonable grounds to believe that the recommendation is suitable for the client on the basis of information furnished by the client after reasonable inquiry concerning the client’s investment objectives, financial situation, needs and any other information known or acquired by the investment adviser;

(2) Placing an order to purchase or sell a security for the account of a client without written authority to do so;

(3) Placing an order to purchase or sell a security for the account of a client upon instruction of a third party without first having obtained a written third-party trading authorization from the client;

(4) Exercising any discretionary power in placing an order for the purchase or sale of securities for a client without obtaining written discretionary authority from the client within 10 business days after the date of the first transaction placed pursuant to oral discretionary authority;

(5) Inducing trading in a client’s account that is excessive in size or frequency in view of the financial resources, investment objectives and character of the account;

(6) Borrowing money or securities from a client unless the client is a broker-dealer, an affiliate of the investment adviser or a financial institution engaged in the business of lending funds or securities;

(7) Lending money to a client unless the investment adviser is a financial institution engaged in the business of lending funds or the client is an affiliate of the investment adviser;

(8) Misrepresenting to any client or prospective client the qualifications of the investment adviser or any investment adviser agent, representative or employee of the investment adviser, misrepresenting the nature of the advisory services being offered or the fees to be charged for such services, or omitting to state a material fact necessary to make the statements made regarding qualifications, services or fees, in light of the circumstances under which they are made, not misleading;

(9) Providing a report or recommendation to any client prepared by a person other than the investment adviser without disclosing that fact, except that the investment adviser may use published research reports or statistical analyses to render advice or order such a report in the normal course of providing its services;

(10) Failing to disclose to a client in writing before any advice is rendered any material conflict of interest relating to the investment adviser or any of its investment adviser agents, representatives or employees which could reasonably be expected to impair the rendering of unbiased and objective advice;

(11) Guaranteeing that a specific result will be achieved (gain or no loss) as a result of the advice that shall be rendered;

(12) Publishing, circulating or distributing any advertisement prohibited by section 36b-31-5a of the regulations;

(13) Disclosing the identity, affairs or investments of any client to any third party, unless required by law or governmental authority to do so, or unless the client consents;

(14) Engaging in any conduct prohibited by section 36b-31-5b of the regulations;

(15) Entering into, extending or renewing any investment advisory contract unless such contract is in writing and discloses, in substance, the services to be provided, the term of the contract, the advisory fee, the formula for computing the fee, the amount and the manner of calculating the amount of the prepaid fee to be returned in the event of contract termination or nonperformance, whether the contract grants discretionary power to the investment adviser and that the investment adviser shall not make an assignment of the contract without the consent of the other party to the contract;

(16) Failing to provide a client with a copy of the completed client information document specified in section 36b-31-14b (b) (2) of the regulations (A) within 10 days after the client's account is first established on the books and records of the investment adviser or (B) within 10 days after any material amendment is made to the client information document. A material amendment is presumed to exist, without limitation, in the event the investment adviser receives from the client and records on the client information document, changes to the client's annual income, net worth, or investment objectives. For purposes of this subdivision, a "client" means any person for whom a client information document needs to be kept and maintained under section 36b-31-14b (b) (2) of the regulations;

(17) Failing to disclose to any client or prospective client all material facts with respect to a financial condition of the investment adviser that is reasonably likely to impair the ability of the investment adviser to meet contractual commitments to clients, if the investment adviser has express or implied discretionary authority or custody over the client's funds or securities, or if the investment adviser requires the prepayment of advisory fees of more than \$500 from such client six months or more in advance;

(18) Failing to disclose to any client or prospective client all material facts with respect to a legal or disciplinary event that is material to an evaluation of the investment adviser's integrity or ability to meet contractual commitments to clients. For purposes of this subsection, there shall be a rebuttable presumption that the following legal or disciplinary events involving the investment adviser or a management person of the investment adviser that were not resolved in such person's favor or subsequently reversed, suspended or vacated are material for 10 years from the time of the event: (A) A criminal or civil action in a court of competent jurisdiction in which the person was (i) convicted, pled guilty or nolo contendere ("no contest") to a felony or misdemeanor involving an investment-related business, fraud, false statements or omissions, wrongful taking of property or bribery, forgery, counterfeiting or extortion, or was the named subject of a pending criminal proceeding of such nature; (ii) found to have been involved in a violation of an investment-related

statute or regulation; or (iii) the subject of any order, fine, judgment or decree permanently or temporarily enjoining or otherwise limiting such person from engaging in any investment-related activity and (B) administrative proceedings before the commissioner, the United States Securities and Exchange Commission or any other state or federal regulatory agency in which such person was (i) found to have caused an investment-related business to lose its authorization to do business; or (ii) found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the state or federal agency denying, suspending or revoking the authorization of, or such person's association with, an investment-related business or otherwise limiting such person's investment-related activities; and

(19) Failing to comply with any securities-related arbitration award, where a timely motion to vacate or modify such award has not been made pursuant to applicable law or where such a motion has been denied.

(b) In construing the term "dishonest or unethical practices in the securities . . . business" as used in this section and in section 36b-15 (a) (2) (H) of the general statutes, the commissioner may consider whether the conduct in question is proscribed by any rule of a national securities exchange or self-regulatory organization registered under federal securities laws administered by the United States Securities and Exchange Commission.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-15d. Dishonest or unethical business practices by investment adviser agents

(a) In implementing section 36b-15 (a) (2) (H) of the general statutes, the following shall be deemed "dishonest or unethical practices in the securities . . . business" by investment adviser agents without limiting those terms to the following practices:

(1) Where an investment adviser agent is dually registered as an investment adviser agent and an agent of an issuer or as an investment adviser agent and an agent of a broker-dealer, failing to disclose to the customer or client in writing the dual capacity in which the investment adviser agent is acting;

(2) Failing to disclose to a client in writing before any advice is rendered any conflict of interest relating to the investment adviser agent which could reasonably be expected to impair the rendering of unbiased advice; and

(3) Engaging in any of the practices specified in subdivisions (1) to (9), inclusive, (11) to (13), inclusive, and (19) of section 36b-31-15c of the regulations.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-15e. Examination requirements for securities personnel

(a) For purposes of this section, "manager" means (1) any person who directly or indirectly supervises securities sales personnel or (2) any person responsible for the day-to-day operation and supervision of an office of a broker-dealer in this state.

(b) Each applicant for broker-dealer registration shall supply evidence to the commissioner that all officers, partners or sole proprietors who act as managers and all managers shall have taken and successfully passed an examination as principal given by the United States Securities and Exchange Commission or by a securities self-regulatory organization registered under the Securities Exchange Act of 1934.

(c) Each registered broker-dealer shall supply evidence to the commissioner that all new officers, partners or sole proprietors who act as managers shall have taken and successfully passed an examination as principal given by the United States Securities and Exchange Commission or by a securities self-regulatory organization registered under the Securities Exchange Act of 1934.

(d) Each applicant for registration as an agent shall supply evidence to the commissioner that such applicant has taken and successfully passed (1) an examination given by the United States Securities and Exchange Commission or by a securities self-regulatory organization registered under the Securities Exchange Act of 1934 and (2) effective October 1, 1994, the UnifState Agents Securities Law Examination.

(e) Effective October 1, 1994, each applicant for registration as an investment adviser agent shall supply evidence to the commissioner that such applicant has taken and successfully passed the Uniform Investment Adviser Law Examination or such other examination determined by the commissioner to be acceptable in lieu thereof. Without limiting the commissioner's authority under section 36b-31-31c of the regulations, the commissioner may waive this requirement for any applicant who has (1) been designated as a Chartered Financial Analyst by the Association for Investment Management and Research or (2) has earned a designation determined by the commissioner to be equal or superior to the Chartered Financial Analyst designation.

(f) Each applicant for registration as an agent of an issuer shall supply evidence to the commissioner that such applicant has taken and successfully passed the Uniform State Agents Securities Law Examination.

(g) Subsections (b) and (c) of this section shall not apply to any individual who became associated with a registered broker-dealer prior to October 1, 1965. Subsection (d) (1) of this section shall not apply to any person who became associated with a registered broker-dealer prior to July 1, 1963, and who, since that date, has been associated continuously with a registered broker-dealer and has not been the subject of any disciplinary action, including suspension or expulsion from membership, suspension or revocation of registration, fine or censure, has not been found to have violated any of the laws pertaining to the supervision of the securities industry or any rule or regulation of an independent securities self-regulatory organization registered under the Securities Exchange Act of 1934, and has not been found to be a cause of any disciplinary action by the United States Securities and Exchange Commission or any governmental agency with jurisdiction over securities activities or any self-regulatory organization.

(h) Subsection (d) (2) of this section shall not apply to any individual who, as of October 1, 1994, was associated with a registered broker-dealer and has not been the subject of any disciplinary action, including suspension or expulsion from membership, suspension or revocation of registration, fine or censure, and has not been found to have violated any of the laws pertaining to the supervision of the securities industry or any rule or regulation of an independent securities self-regulatory organization registered under the Securities Exchange Act of 1934, and has not been found to be a cause of any disciplinary action by the United States Securities and Exchange Commission or any governmental agency with jurisdiction over securities activities or any self-regulatory organization.

(i) Subsection (e) of this section shall not apply to any individual who, as of October 1, 1994, was associated with a registered investment adviser and has not been the subject of any disciplinary action, including suspension or expulsion from membership, suspension or revocation of registration, fine or censure, and has not been found to have violated any of the laws pertaining to the supervision of the securities industry or any rule or regulation of an independent securities self-regulatory organization registered under the Securities Exchange Act of 1934, and has not been found to be a cause of any disciplinary action by the United States Securities

and Exchange Commission or any governmental agency with jurisdiction over securities activities or any self-regulatory organization.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-15f. Summary orders

If the commissioner issues a summary order pursuant to section 36b-15c of the general statutes, an opportunity for hearing shall be granted only if a written request for a hearing is filed within 14 days following the respondent's receipt of the order. The ring shall be held in accordance with chapter 54 of the general statutes.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-16. Reserved

Sec. 36b-31-17a. Registration of securities by coordination

(a) A person seeking to register by coordination a security for which a registration statement has been filed under the Securities Act of 1933 in connection with the same offering shall file Forms U-1 and U-2 with the commissioner. A broker-dealer registered under the Act may omit Form U-2.

(b) Each application for registration by coordination shall also include a copy of the issuer's articles of incorporation and by-laws or their substantial equivalents currently in effect, a copy of any agreements with or among underwriters, a copy of any indenture or other instrument governing the issuance of the security to be registered, a specimen or copy of the security, an opinion of counsel regarding the issuance of the securities and a list of broker-dealers or agents of the issuer registered under the Act who may offer the securities in this state.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-17b. Shelf registration

A registration of securities to be offered in series or a registration for delayed or continuous offering and sale of securities for which a single registration statement has been filed under the Securities Act of 1933 may be filed by coordination. The initial filing shall be made in accordance with section 36b-17 of the general statutes. Prior to the offering of each subsequent series or each particular offering of securities for which a registration for delayed or continuous offering and sale has been filed, the registrant shall submit for each such series or offering a Form U-1, the filing fee required by section 36b-19 (b) of the general statutes and any additional information given or any documents filed with the United States Securities and Exchange Commission. The registration of each subsequent series or particular offering so filed shall be effective automatically once the commissioner receives (a) written notice of Securities and Exchange Commission effectiveness of each amendment to the issuer's federal registration statement relating to that series or offering and the final pricing information, if any, or (b) pricing telegrams with respect to series or offerings for which no such amendment has been filed.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-17c. Registration by coordination of unit investment trust securities

(a) A unit investment trust that satisfies the eligibility requirements of Rule 487, 17 C.F.R. § 230.487 under the Securities Act of 1933, and which seeks to designate the date and time when the federal registration of securities of a series of such unit investment trust, other than the first series, shall become effective under Rule 487,

may register such securities under section 36b-17 of the general statutes in accordance with this section.

(b) Pursuant to subsections (d) and (e) of section 36b-19 of the general statutes, the following may be omitted from the registration statement filed under section 36b-17 (b) of the general statutes if the registrant represents to the commissioner in writing that the omitted information does not differ in any material respect from that contained in a registration for a prior series that became effective under section 36b-17 of the general statutes, otherwise than pursuant to this section, within the previous two years and for which federal effectiveness was determined by the United States Securities and Exchange Commission: (1) The copy of the latest form of prospectus filed under the Securities Act of 1933 that otherwise would have been required under section 36b-17 (b) of the general statutes and section 36b-31-19b (b) of the regulations; (2) the organizational instruments required by section 36b-17 (b) (2) of the general statutes and section 36b-31-19b (b) of the regulations; (3) the copy of any agreements with or among underwriters required by section 36b-17 (b) (2) of the general statutes and section 36b-31-19b (b) of the regulations; (4) the copy of any indenture or other instrument governing the issuance of the securities to be registered as required by section 36b-17 (b) (2) of the general statutes; (5) the specimen or copy of the security required by section 36b-17 (b) (2) of the general statutes; (6) if applicable, the advisory, custodian and business management agreements required by section 36b-31-19b (b) of the regulations; (7) the form of application to purchase securities required by section 36b-31-19b (b) of the regulations; (8) the sales literature required by section 36b-22 of the general statutes and section 36b-31-22 of the regulations; (9) an undertaking to forward all amendments to the federal prospectus as required by section 36b-17 (b) (4) of the general statutes; and (10) a copy of any pre-effective amendment to the federal registration statement required by section 36b-31-19b of the regulations.

(c) Prior to the date of federal effectiveness, the unit investment trust shall submit the following in connection with the registration by coordination of its securities: (1) A separate nonrefundable filing fee for each series as required by section 36b-19 (b) of the general statutes; (2) a separate registration (Form U-1) for each series; (3) the amount of securities to be offered as required by section 36b-19 (c) (1) of the general statutes; (4) the states in which a registration statement or similar document in connection with the offering has been or is to be filed as required by section 36b-19 (c) (2) of the general statutes; (5) the name of any broker-dealer or agent registered to do business under the Act who may offer the securities in this state as required by section 36b-19 (c) (3) of the general statutes; (6) information on any adverse order, judgment, decree or permanent or temporary injunction entered in connection with (A) the offering, (B) other securities of the issuer or (C) the person seeking the registration, by the regulatory authorities in each state, by any self-regulatory organization or by any court or the United States Securities and Exchange Commission, as required by section 36b-19 (c) (4) of the general statutes; (7) an undertaking to forward all post-effective amendments to the federal prospectus, as required by section 36b-17 (b) (4) of the general statutes; (8) any request by the issuer or person seeking the registration to withdraw an application pending before a state or federal agency to register the same securities the person seeks to register under the Act; (9) final notice from any state or federal administrative agency that the securities or any information or document filed with that agency relating to such security fails to meet the agency's requirements; (10) if required by section 36b-33 (g) of the general statutes, a Consent to Service of Process (Form U-2); (11)

written notice of the date and time of federal effectiveness designated under Rule 487 and the one or more previous series of the trust for which the United States Securities and Exchange Commission and the commissioner have determined the effectiveness date; and (12) a copy of the written opinion of counsel, if any, provided pursuant to subsection (b) (6) of Rule 487, stating that the federal registration statement or pre-effective amendment does not contain disclosures that would render the registration statement ineligible to become effective in accordance with Rule 487.

(d) A registration of unit investment trust securities shall become effective in accordance with the designation of effectiveness made pursuant to Rule 487 if the conditions precedent to effectiveness under section 36b-17 (c) of the general statutes are satisfied, except that: (1) the condition in section 36b-17 (c) (2) of the general statutes that the registration statement be on file with the commissioner for at least 15 days shall be waived and (2) the condition in section 36b-17 (c) (3) of the general statutes that a written or telegraphic statement of the maximum and minimum proposed offering prices and the maximum underwriting discounts and commissions be on file with the commissioner for two full business days shall be waived.

(e) Nothing in this section shall relieve a registrant of unit investment trust securities of its obligation to (1) provide notice of the content of the price amendment, a confirmation of federal effectiveness and the post-effective amendment required by section 36b-17 (c) of the general statutes within the time prescribed by that section and (2) make any other post-effective filings required by the Act or these regulations.

(f) Nothing in this section shall relieve a registrant of unit investment trust securities of its obligation under section 36b-19 (j) of the general statutes to file a correcting amendment with the commissioner should the information or documents contained in the registration statement become inaccurate or incomplete in any material respect.

(g) Should the United States Securities and Exchange Commission suspend the ability of the unit investment trust to designate the date and time of federal effectiveness of a series of such trust, the registrant shall notify the commissioner in writing of such fact within one business day after the registrant receives notice thereof, and if a request for a hearing is made, the registrant shall promptly notify the commissioner of the result of any hearing held by the United States Securities and Exchange Commission.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-18. Registration of securities by qualification

(a) A person seeking to register a security by qualification shall file Forms U-1 and U-2 and the documents and information that sections 36b-18 (b) and 36b-19 (c) of the general statutes require. A broker-dealer registered under the Act may omit Form U-2.

(b) A person seeking to register a security for which a Form 1-A offering statement has been filed pursuant to Securities and Exchange Commission Regulation A (17 C.F.R. §§ 230.251 through 230.263) under the Securities Act of 1933 shall also file the Form 1-A offering statement required by Rules 251 and 252 (17 C.F.R. §§ 230.251 and 230.252) and a cross-reference sheet indicating the location of the information required by section 36b-18 (b) of the general statutes.

(c) As a condition to registration by qualification, a prospectus containing the information required by subdivisions (1) through (11), inclusive, and (16) of section 36b-18 (b) of the general statutes shall be sent or given to each person to whom an offer is made before or concurrently with (1) the first written offer made to such person, other than by means of a public advertisement, by or for the account of the

issuer or any other person on whose behalf the offering is being made, or by any underwriter or broker-dealer who is offering part of an unsold allotment or subscription taken by such underwriter or broker-dealer as a participant in the distribution; (2) the confirmation of any sale made by or for the account of any such person; (3) payment pursuant to any such sale; or (4) delivery of the security pursuant to any such sale, whichever first occurs.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-18a. Small corporate offering registration (SCOR)

(a) For purposes of this section, "Small Corporate Offering Registration Form," "SCOR" and "Form U-7" means the Small Corporate Offering Registration Form adopted by the North American Securities Administrators Association, Inc. on April 29, 1989 to facilitate the registration of offerings made pursuant to Securities and Exchange Commission Rule 504, 17 C.F.R. 230.504, promote uniformity in registration and maintain investor protection standards.

(b) For purposes of this section, "issuer" shall not include the following: (1) Any individual or form of business organization which is not a corporation; (2) any corporation not organized under the laws of any state, territory, or possession of the United States, the District of Columbia or Puerto Rico; (3) any person engaged in mining, petroleum exploration or production or other extractive industry business; (4) any person subject to the reporting requirements of Section 13 or Section 15 of the Securities Exchange Act of 1934, as amended; or (5) any investment company described in the Investment Company Act of 1940, as amended.

(c) A security may be registered by qualification using SCOR if all of the conditions in this section are met.

(d) The person filing the registration statement on SCOR shall be the issuer or one acting on behalf of the issuer, and shall not be (1) a selling security holder; (2) a purchasing underwriter in a firm commitment underwriting; or (3) any person otherwise seeking to register the securities for resale in a secondary distribution.

(e) The securities to be registered by means of SCOR shall only consist of debt securities or equity securities. In the case of common stock, the offering price shall equal or exceed \$5 per share, and if the securities to be registered consist of options, warrants or rights for common stock, such \$5 limitation on the price per share shall apply to the exercise price. Where the securities to be registered are convertible into common stock, the conversion price shall be at least \$5 per share.

(f) The issuer shall undertake, in conjunction with the SCOR registration, to refrain from splitting its common stock or declaring a stock dividend for two years following effectiveness of the SCOR registration under section 36b-18 (c) of the general statutes; provided that nothing in this subsection shall preclude the issuer from taking such action in connection with a subsequent registered public offering where the prior written consent of the commissioner is obtained.

(g) The offering to be registered by means of SCOR shall not be that of a "blank check company" as defined in section 36b-3 (17) of the general statutes or of any other issuer which cannot describe the specific business in which it will engage or the property to be acquired.

(h) The aggregate offering price, within or outside Connecticut, of the securities to be registered by means of SCOR shall not exceed \$1 million less the aggregate offering price for all securities sold within the 12 months prior to the commencement of, and during, the offering of the securities (1) under Securities and Exchange Commission Rule 504, 17 C.F.R. § 230.504; (2) in reliance on any exemption under

Section 3 (b) of the Securities Act of 1933; or (3) in violation of Section 5 of the Securities Act of 1933.

(i) The registrant shall file with the commissioner as part of its SCOR application a copy of Form D as filed with the United States Securities and Exchange Commission claiming exemption of the offering from registration under the Securities Act of 1933 pursuant to Rule 504 of Regulation D, 17 C.F.R. § 230.504. Such filing shall be made with the commissioner at the same time it is made with the United States Securities and Exchange Commission. The issuer shall also file an executed Form U-1, Form U-2, Form U-2A and the exhibits required by Form U-7, and shall include the fee required by section 36b-19 (b) of the general statutes.

(j) Registration by means of SCOR shall not be available for the securities of any issuer if the issuer or any of its officers, directors, 10 percent stockholders, promoters or any selling agents of the securities to be offered, or any officer, director or partner of the selling agent:

(1) Has filed a registration statement that is the subject of a currently effective registration stop order entered pursuant to the securities laws of any state within five years prior to the filing of the SCOR application for registration;

(2) Has been convicted within five years prior to the filing of the SCOR registration application of any felony or misdemeanor in connection with the offer, purchase or sale of any security, or any felony involving fraud or deceit, including, without limitation, forgery, embezzlement, obtaining money under false pretenses, larceny, and conspiracy to defraud;

(3) (A) Is currently subject to any state administrative enforcement order or judgment entered by the securities administrator of a state within five years prior to the filing of the SCOR application for registration or (B) is subject to any state administrative enforcement order or judgment in which fraud or deceit was found, including, but not limited to, making untrue statements of material fact and omitting to state material facts, and the order or judgment was entered or obtained by the state within five years prior to the filing of the SCOR application for registration;

(4) Is subject to any state administrative enforcement order or judgment prohibiting, denying or revoking the use of any exemption from registration in connection with the offer, purchase or sale of securities for which registration is sought by means of SCOR; or

(5) Is currently subject to any order, judgment or decree which (A) was entered within five years prior to the filing of the SCOR application for registration by any court of competent jurisdiction and (B) temporarily, preliminarily, or permanently restricts, restrains, or enjoins such party from engaging in or continuing any conduct or practice in connection with the purchase or sale of any security or involving the making of any false filing with any state.

(k) The prohibitions in subdivisions (1), (2), (3) and (5) of subsection (j) of this section shall not apply if the person subject to the disqualification is duly licensed or registered conduct securities-related business in the state where the administrative order or judgment was entered against such person or if the broker-dealer employing such party is licensed or registered in this state and the Form B-D filed with this state discloses such order, conviction, judgment or decree relating to such person. No person disqualified under subsection (j) of this section may act in a capacity other than that for which the person is licensed or registered.

(l) The commissioner may in his discretion waive any disqualification caused by subsection (j) of this section if the state securities administrator or agency of the state which created the basis for the disqualification determines, upon a showing

of good cause, that it is not necessary under the circumstances that registration be denied.

(m) If the proposed business of the issuer requires a minimum amount of proceeds to commence or proceed with the business in the manner proposed, there shall be established an escrow with a bank, savings and loan association or other similar depository institution acting as independent escrow agent with which shall be immediately deposited all proceeds received from investors until the minimum amount of proceeds has been raised. The date at which the funds shall be returned by the escrow agent if the minimum proceeds are not raised shall not be later than one year from the date of effectiveness of the SCOR registration in this state.

(n) The issuer shall prepare and file the following financial statements in connection with its SCOR application in lieu of the documents required by section 36b-18 (b) (16) of the general statutes:

(1) For the issuer and its consolidated subsidiaries, a balance sheet as of the end of the most recent fiscal year. If the issuer has been in existence for less than one fiscal year, the issuer shall file a balance sheet as of the date within 135 days of the filing of the SCOR registration statement in this state. If the first effective date of state registration, as set forth on the cover page of the SCOR application, is within 45 days following the end of the issuer's fiscal year and financial statements for the most recent fiscal year are not available, the balance sheet may be as of the end of the preceding fiscal year and shall include an additional balance sheet as of an interim date at least as current as the end of the issuer's third fiscal quarter of the most recently completed fiscal year;

(2) For the issuer, its consolidated subsidiaries and predecessors, statements of income and cash flow and statements of changes in stockholders' equity for the last fiscal year preceding the date of the most recent balance sheet filed pursuant to subdivision (1) of this subsection, or such shorter period as the issuer, including any predecessors, has been in existence;

(3) Statements of income and cash flow for any interim period between the latest reviewed or audited balance sheet and the date of the most recent interim balance sheet being filed;

(4) If, since the beginning of its last fiscal year, the issuer has acquired another business, the issuer shall file a pro forma combined balance sheet as of the end of the fiscal year. The issuer shall file a pro forma combined statement of income as if the acquisition had occurred at the beginning of the issuer's last fiscal year if any of the following apply: (A) The investments in, and advances to, the acquired business by the issuer and its subsidiaries, other than the acquired business, exceed 20 percent of the issuer's assets on its consolidated balance sheet at the end of the issuer's last fiscal year; (B) the proportionate share of the total assets, after intercompany elimination, of the acquired business held by the issuer and its subsidiaries, other than the acquired business, exceeds 20 percent of the assets on its consolidated balance sheet; or (C) the equity of the issuer and its subsidiaries, other than the acquired business, in income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principles, of the acquired business exceeds 20 percent of such income of the issuer and its consolidated subsidiaries for the issuer's last fiscal year;

(5) Financial statements shall be prepared in accordance with generally accepted accounting principles. If the issuer has not conducted significant operations, statements of receipts and disbursements shall be included in lieu of statements of income;

(6) Interim financial statements may be unaudited. All other financial statements shall be audited by independent certified public accountants; provided, that if each

of the following conditions are met, such financial statements, in lieu of being audited, may be reviewed by independent certified public accountants in accordance with the Accounting and Review Service Standards promulgated by the American Institute of Certified Public Accountants: (A) The issuer shall not have previously sold securities by means of an offering involving the general solicitation of prospective investors by means of advertising, mass mailings, public meetings, "cold call" telephone solicitations or any other method directed towards the public; (B) the issuer shall not previously have been required under federal or state securities laws to provide audited financial statements in connection with any sale of its securities; (C) the aggregate amount of all previous sales of securities by the issuer, excluding debt financings with banks and similar commercial lenders, shall not exceed \$1 million; and (D) the amount of the present offering shall not exceed \$500,000; and

(7) Financial statements shall reflect all stock splits, including reverse stock splits, stock dividends and recapitalizations, even if they have occurred since the date of the financial statements.

(o) Once the Form U-7 is completed and filed, and the SCOR registration is declared effective by the commissioner pursuant to section 36b-18 (c) of the general statutes, the issuer shall send or give to each offeree of the security a copy of Form U-7, excluding instructions, which shall serve as the prospectus for purposes of section 36b-18 (d) of the general statutes and shall be provided to each offeree before or concurrently with (1) the first written offer made to him, otherwise than by means of a public advertisement, by or for the account of the issuer; (2) the confirmation of any sale made by or for the account of such person; (3) payment pursuant to any such sale; or (4) delivery of the security pursuant to any such sale, whichever first occurs.

(p) The issuer shall file, in conjunction with its SCOR application, a copy of any prospectus, pamphlet, circular, form letter, advertisement or other sales literature intended as of the effective date of the registration to be used in connection with the offering. Any written announcement of the offering shall contain no more than the following: (1) The name of the issuer; (2) a characterization of the issuer as indicated on the cover page of the SCOR registration statement; (3) the address and telephone number of the issuer; (4) a brief indication, in 10 words or less, of the business or proposed business, of the issuer; (5) the number and type of securities to be offered and the offering price per security; (6) the name, address and telephone number of any selling agent authorized to sell the securities; (7) a statement that the announcement does not constitute an offer to sell or solicitation of an offer to purchase and that any such offer shall be made by official prospectus or disclosure document; (8) how a copy of the prospectus or disclosure document may be obtained; (9) the issuer's corporate logo; and (10) clip and return coupons, if any, use of which would facilitate the provision of a copy of the prospectus or disclosure document to prospective purchasers.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-19a. Provisions applicable to registration generally

(a) A person filing a registration statement under sections 36b-17 or 36b-18 of the general statutes shall pay a non-refundable filing fee for each class and/or series of securities a registration statement covers. The registration statement for a security, other than that for an investment company, may cover one or more classes and/or series of the issuer's securities. In computing the filing fee, a registration statement covering one or more types of securities of the same issuer which are offered for sale as a unit is deemed to cover a single class.

(b) A person filing a registration statement under sections 36b-17 or 36b-18 of the general statutes shall timely file with the commissioner all amendments to the prospectus, other than amendments which merely delay the effective date of the registration statement, clearly marked to indicate the specific amendments. Where the offering has been filed with the United States Securities and Exchange Commission, such amendments shall be filed with the commissioner within two business days after they have been filed with the United States Securities and Exchange Commission.

(c) A person seeking to register securities under the Act shall promptly notify the commissioner of the following information or events and, if the registration statement is filed under section 36b-17 of the general statutes, such notice shall be given prior to the effective date of the federal registration statement: (1) A change in any of the information or documents filed with the commissioner; (2) any adverse order, judgment, decree or permanent or temporary injunction entered by a state or federal agency or court concerning (A) the offering or (B) other securities of the issuer or of the person seeking the registration; (3) a request by the issuer or the person seeking the registration to withdraw an application pending before a state or federal agency to register the same security the applicant seeks to register under the Act; (4) final notice from any state or federal administrative agency that the security or any information or document filed with the agency relating to the security fails to meet the agency's requirements; and (5) such additional information and documents concerning the security or the issuer as the commissioner may request.

(d) The commissioner may accept the registration of a business opportunity under chapter 672c of the general statutes in lieu of a registration under sections 36b-17 or 36b-18 of the general statutes if the commissioner determines that accepting such registration will adequately protect the public and the security also constitutes a business opportunity as defined in section 36b-61 (6) of the general statutes.

(e) A person filing a registration statement under sections 36b-17 or 36b-18 of the general statutes shall promptly notify the commissioner in writing of the completion date of the initial distribution of a security registered under the Act and sections 36b-31-2 to 36b-31-33, inclusive, of the regulations, the amount of securities sold in Connecticut and the availability of an exemption for any nonissuer distribution; provided, notice need not be given by any registrant who has paid the maximum filing fee required by section 36b-19 (b) of the general statutes or for a distribution of investment company shares.

(f) As long as the registration statement remains effective, the person who filed a registration statement for a security registered under the Act or under any predecessor statute shall furnish a balance sheet as of the close of the issuer's most recent fiscal year and an income statement for such fiscal year.

(g) If the information or documents contained in any registration statement is or becomes inaccurate or incomplete in any material respect, the person who filed the registration statement shall promptly file a correcting amendment with the commissioner.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-19b. Registration of investment company shares

(a) A registration statement under sections 36b-17 or 36b-18 of the general statutes shall cover only one class, series or portfolio of investment company shares.

(b) A person filing a registration statement for investment company shares under section 36b-17 or 36b-18 of the general statutes shall file the following documents, in addition to those required by sections 36b-17 and 36b-18 of the general statutes:

(1) The most recent post-effective amendment to the federal registration statement including the latest form of prospectus filed under the Securities Act of 1933; (2) one copy of the latest form prospectus filed under the Securities Act of 1933; (3) the issuer's articles of incorporation, declaration of trust or comparable instrument; (4) the issuer's by-laws; (5) agreement among underwriters; (6) advisory agreement; (7) custodian agreement; (8) form of application to purchase securities; (9) business management agreement; and (10) any other documents the commissioner requests.

(c) A person filing a renewal registration for investment company shares under section 36b-19 (k) of the general statutes shall file an application to register securities (Form U-1) accompanied by the required filing fee and any documents called for by Form U-1, except that all relevant exhibits filed in connection with a prior registration may be incorporated by reference in the renewal registration application.

(d) As long as a registration statement covering investment company shares is effective under the Act, and for as long thereafter as the registration statement remains effective, (1) the person filing the registration statement or the issuer shall file with the commissioner a copy of the issuer's annual report within 10 days following the general mailing of the annual report to shareholders and (2) upon request by the commissioner, and within such period as the commissioner shall require, the person filing the registration statement shall file a report of the aggregate sales price of each class of the issuer's securities sold in Connecticut during the issuer's fiscal year.

(e) Pursuant to the undertaking in Form U-1, the person filing the registration statement shall file with the commissioner a copy of each amendment to the federal registration statement.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-19c. Post-sale registration

(a) A person seeking to register a security which has been sold or offered for sale without compliance with section 36b-16 of the general statutes shall file the following documents and provide the following information to the commissioner: (1) A registration statement containing the documents, information and filing fee required by sections 36b-18 and 36b-19 (b) of the general statutes; (2) an additional filing fee of \$50; and (3) a schedule listing (A) the names, addresses and telephone numbers of those persons to whom the unregistered securities were sold without compliance with section 36b-16 of the general statutes, (B) the number of securities sold to each such person, (C) the consideration, whether in cash or item of value, paid by each such person, and (D) a single document, signed and sworn to by an executive officer of the applicant for registration, which contains an explanatory statement and a statement of non-prejudice.

(b) The explanatory statement shall include the following information: (1) A statement that the securities were sold or offered for sale without compliance with section 36b-16 of the general statutes; (2) the total number of securities sold without compliance with section 36b-16 of the general statutes; (3) a statement that, to induce each person to whom securities have been sold in violation of the Act to sign the statement of non-prejudice, the explanatory statement is being prepared for presentation to that person; (4) a full and complete statement of remedies provided under section 36b-29 of the general statutes; (5) the aggregate cost, whether in cash or item of value, of the securities sold without compliance with section 36b-16 of the general statutes; (6) any commission or other remuneration received by any person in connection with the sale of the unregistered securities; and (7) a statement

containing any other material facts relating to the sale or offer for sale of the unregistered securities.

(c) The statement of non-prejudice shall provide: (1) That the security holder to whom unregistered securities were sold has read the explanatory statement; (2) that the security holder is satisfied that he has not been defrauded, damaged or prejudiced by the prior failure to register the securities; and (3) that each security holder to whom unregistered securities have been sold has not waived any of his rights under the Act by signing the statement.

(d) The applicant for registration shall file the document containing both the explanatory statement and the statement of non-prejudice with the commissioner for review. The commissioner may object to the content of the document but shall in no way pass upon its truthfulness. Following review by the commissioner, the applicant for registration shall send the document by certified mail, return receipt requested, to each person to whom unregistered securities were sold and shall submit copies of all return receipts to the commissioner. The applicant for registration shall certify to the commissioner that substantially all of those persons to whom unregistered securities were sold have signed the document, and shall return the signed documents to the commissioner. No registration statement under this section shall be made effective until the commissioner has received the document signed by substantially all of the persons to whom unregistered securities have been sold.

(e) A registration statement filed under this section shall become effective if and when the commissioner so orders.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-19d. Registration of offerings eligible to utilize the securities and exchange commission multijurisdictional disclosure system

(a) A registration statement filed with the United States Securities and Exchange Commission, designated as Form F-7, Form F-8, Form F-9 or Form F-10 and filed with the commissioner pursuant to sections 36b-17 or 36b-18 of the general statutes, shall be subject to the following provisions: (1) The 15-day filing requirement contained in section 36b-17 (c) (2) of the general statutes shall be reduced to seven days and (2) financial statements and financial information prepared in accordance with Canadian generally accepted accounting principles, consistently applied, may be contained in such registration if (A) where the registration statement is designated as Form F-7, the securities that are the subject of the registration statement are offered for cash upon the exercise of rights granted to existing security holders; (B) where the registration statement is designated as Form F-8, the securities that are the subject of the registration statement are to be issued in an exchange offer, merger or other business combination; (C) where the registration statement is designated as Form F-9, the securities that are the subject of the registration statement (i) either consist of non-convertible preferred stock or non-convertible debt securities and (ii) are to be rated in one of the four highest rating categories by one or more statistical rating organizations designated by the commissioner; or (D) where the registration statement is designated as Form F-10, the securities that are the subject of the registration statement are offered and sold pursuant to a prospectus in which the United States Securities and Exchange Commission has not required a reconciliation to United States generally accepting accounting principles with respect to the financial information presented in the prospectus. For purposes of this subsection, preferred stock and debt securities that are not convertible for at least one year from the date the registration statement becomes effective shall be deemed to meet the requirements of subdivision (2) (C) of this subsection.

(b) Nothing in this section shall preclude the commissioner from requesting such additional information as the commissioner deems necessary in the public interest.
(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-20. Reserved

Secs. 36b-31-21a-1—36b-31-21a-8. Reserved

Sec. 36b-31-21a-9. Exemption for securities issued by nonprofit organizations

For purposes of section 36b-21 (a) (9) of the general statutes, the issuance of a determination letter by the Internal Revenue Service confirming the status of a person as an exempt organization under Section 501 (c) (3) of the Internal Revenue Code of 1954, as amended, shall be prima facie evidence that such person is “organized and operated not for private profit but exclusively for religious, educational, benevolent, charitable, fraternal, social, athletic, or reformatory purposes.”

(Effective August 22, 1994, transferred July 3, 1995)

Secs. 36b-31-21a-10—36b-31-21a-21. Reserved

Sec. 36b-31-21b-1. Exemption for isolated non-issuer transactions

In implementing section 36b-21 (b) (1) of the general statutes, “isolated” shall mean not in the course of repeated and successive transactions of like character. Two consecutive sales of securities made within such a period of time and under such circumstances so as to indicate that they involve the same plan of financing are not isolated.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-21b-2. Manual exemption

In implementing section 36b-21 (b) (2) (A) of the general statutes, “recognized securities manual” shall include only Standard & Poors Standard Corporation Descriptions, Standard & Poors Corporation Records, Moody’s Industrial Manual, Moody’s Bank and Finance Manual, Moody’s Transportation Manual, Moody’s OTC Industrial Manual, Moody’s Public Utility Manual and Moody’s International Manual. Supplements to such manuals are recognized if the information required by section 36b-21 (b) (2) (A) of the general statutes is disclosed in the supplement and the supplement is subsequently incorporated and published in the respective annual manual. If the manual contains the information required by section 36b-21 (b) (2) (A) of the general statutes only in abbreviated form, the securities transaction is not exempt under section 36b-21 (b) (2) (A) of the general statutes.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-21b-3. Exemption for non-issuer transaction through a registered broker-dealer

For purposes of section 36b-21 (b) (3) of the general statutes, unless the confirmation is conspicuously marked “unsolicited order,” the customer shall acknowledge in writing that the sale was unsolicited. A registered broker-dealer shall not be deemed to have solicited an order or offer to buy a security purchased by or through that broker-dealer merely because bid and offer quotations for the security were published in an interdealer quotation service or in the financial columns of newspapers.

(Effective August 22, 1994, transferred July 3, 1995)

Secs. 36b-31-21b-4—36b-31-21b-8. Reserved

Sec. 36b-31-21b-9a. Exemption for transactions pursuant to Section 4 (2) of the Securities Act of 1933

(a) For purposes of section 36b-21 (b) (9) (A) of the general statutes, a transaction not involving a public offering within the meaning of Section 4 (2) of the Securities Act of 1933 shall be exempt from section 36b-16 of the general statutes if the requirements of this section are satisfied, provided, transactions effected in reliance on the federal exemption in Rules 501, 502, 503 and 506 of Regulation D, 17 C.F.R. §§ 230.501, 230.502, 230.503 and 230.506 under the Securities Act of 1933, shall be governed by section 36b-31-21b-9b of the regulations.

(b) Prior to the first sale of securities in this state, the issuer shall file with the commissioner a notice manually signed by a person duly authorized by the issuer. The notice shall include (1) the issuer's name and address, the names of the issuer's officers, directors, general partners or persons occupying a similar status, a brief description of the securities to be sold, the selling price of the securities, the amount of securities to be sold, the name and address of the person who will offer or sell the securities in this state, whether the person offering or selling the securities in Connecticut shall receive any direct or indirect remuneration related to offers or sales of such securities and whether such person is engaged in the business of effecting securities transactions; (2) an undertaking by the issuer to furnish the commissioner, upon the commissioner's written request, with any offering materials used in connection with the sale of the securities in this state; (3) a Uniform Consent to Service of Process (Form U-2) executed pursuant to section 36b-33 (g) of the general statutes; and (4) the filing fee prescribed by section 36b-21 (b) (9) of the general statutes.

(c) Failure to timely file the notice required by this section shall not, in and of itself, preclude reliance on the exemption afforded by section 36b-21 (b) (9) of the general statutes. If the commissioner finds that such notice has not been timely filed with respect to more than one offering, he may issue an order restricting the right to use exemptions under this section and section 36b-31-21b-9b of the regulations in the future. Such order may be directed to any person subject to the prohibition in section 36b-16 of the general statutes.

(d) Until such time as the offering has been completed, the issuer shall promptly notify the commissioner in writing of any material changes in the information submitted pursuant to this section. The issuer shall also provide to the commissioner such additional information concerning the status or nature of the offering as the commissioner may request, either prior to, or following, completion of the offering.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-21b-9b. Exemption for transactions pursuant to rules 504, 505 and 506 of regulation D

(a) If the requirements of this section are satisfied, section 36b-21 (b) (9) (A) of the general statutes shall exempt from section 36b-16 of the general statutes any offer or sale of securities made in compliance with Rules 501, 502, 503 and 506 of Regulation D, 17 C.F.R. §§ 230.501, 230.502, 230.503 and 230.506 under the Securities Act of 1933.

(b) If the requirements of this section are satisfied, section 36b-21 (b) (9) (B) of the general statutes shall exempt from section 36b-16 of the general statutes transactions made in compliance with (1) Rules 501, 502, 503 and 505 of Regulation D, 17 C.F.R. §§ 230.501, 230.502, 230.503 and 230.505 under the Securities Act of 1933 or (2) Rules 501, 502, 503 and 504 of Regulation D, 17 C.F.R. §§ 230.501, 230.502, 230.503 and 230.504 under the Securities Act of 1933.

(c) In any transaction pursuant to Rule 504, 505 or 506 of Regulation D, 17 C.F.R. §§ 230.504, 230.505 and 230.506 under the Securities Act of 1933, the aggregate commission, discount or other similar remuneration paid or given directly or indirectly in connection with the sale, excluding legal, accounting and printing fees, shall not exceed 15 percent of the initial offering price. For purposes of this subsection, “15 percent of the initial offering price” means 15 percent of the number of securities sold multiplied by the offering price of those securities. Such limitation shall not apply where a statement itemizing such remuneration is filed with the commissioner before the first sale in this state and given to each purchaser in this state before a sale to that purchaser. Nothing in this subsection shall be construed to affect the need for those disclosures required by Rule 502 of Regulation D, 17 C.F.R. § 230.502 and subsection (d) of this section.

(d) If the issuer sells securities pursuant to Rules 505 or 506 of Regulation D, 17 C.F.R. §§ 230.505 and 230.506, to any purchaser in this state who is not an accredited investor, the disclosure requirements in Rule 502 (b) of Regulation D, 17 C.F.R. § 230.502 (b) shall apply with respect to all purchasers in this state, whether or not accredited. In complying with the financial statement requirements of Rule 502 (b), it shall be presumed for purposes of satisfying the requirements of this section that unreasonable effort or expense exists when an issuer has been in business for less than one year.

(e) If the offering is made pursuant to Rule 504 of Regulation D, 17 C.F.R. § 230.504, the total number of non-accredited investors in this state shall not exceed 35. Prior to any sale pursuant to Rule 504, each offeree in this state shall be given a written disclosure statement containing (1) the name, address and state of organization of the issuer and the names and residence addresses of the issuer’s officers, directors, general partners or other principals, however designated; (2) a brief description of the offering, including the securities being offered and the intended application of the offering proceeds; (3) the issuer’s balance sheet dated within 120 days of the start of the offering and a profit and loss statement for the issuer’s most recent fiscal year and for any period between the close of the last fiscal year and the date of the balance sheet. Such financial statements need not be audited; and (4) a discussion of the principal factors that make the offering speculative or one of high risk. The written disclosure statement shall carry the following legend set forth boldly on the outside cover: **“THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE BANKING COMMISSIONER OF THE STATE OF CONNECTICUT NOR HAS THE COMMISSIONER PASSED UPON THE ACCURACY OR ADEQUACY OF THE OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.”** An issuer defined in subsection (b) of section 36b-31-18a of the regulations which elects to rely on the exemption from registration in section 36b-21 (b) (9) (B) of the general statutes for offerings exempt under Rule 504 of Regulation D, 17 C.F.R. § 230.504, may use Form U-7 to satisfy the written disclosure and financial statement requirements of this subsection.

(f) No exemption under this section shall be available for the offer or sale of securities if (1) such offer or sale is disqualified under Rule 262 of Regulation A, 17 C.F.R. § 230.262 under the Securities Act of 1933, or (2) if the issuer, any of its predecessors, any affiliated issuer or any person associated with the issuer, as described below, (A) has been convicted of a felony involving the purchase or sale of a security within five years prior to the commencement of the offering or (B) is currently subject to any state administrative order entered or any judgment procured

by a state securities administrator within five years prior to the commencement of the offering, unless the person subject to such order or judgment is currently registered or licensed to conduct securities-related business in the jurisdiction where the order or judgment was entered or the state securities administrator has indicated to the person in writing that the order or judgment would not operate to preclude reliance on the limited offering exemption in that state. Any order issued by the securities administrator of another state must have been based on grounds that would be sufficient for the issuance of an order under the Act. For purposes of this subsection, "person associated with the issuer" means any director, officer or general partner of the issuer; any beneficial owner of 10 percent or more of any class of the issuer's equity securities; any promoter of the issuer presently connected with it in any capacity; any underwriter of the securities to be offered; or any partner, director or officer of such underwriter.

(g) Securities acquired in a transaction exempt under this section shall have the status of securities acquired in a transaction under Section 4 (2) of the Securities Act of 1933 and cannot be resold without registration under section 36b-16 of the general statutes or an exemption from registration under section 36b-21 of the general statutes. The issuer shall exercise reasonable care to ensure compliance with such limitations on resale, including but not limited to, the following: (1) Reasonable inquiry to determine if the purchaser is acquiring the securities for himself or for other persons; (2) written disclosure to each purchaser prior to sale that the securities have not been registered under section 36b-16 of the general statutes and therefore cannot be resold unless they are registered or exempt from registration under the Act; and (3) placement of a legend on the certificate or other document evidencing the securities stating that the securities have not been registered under the Act and setting forth or referring to the restrictions on transferability and sale of the securities. The commissioner may accept a general legend addressing state law requirements if he determines that use of such legend would adequately protect purchasers in this state.

(h) Prior to the first sale of securities in this state, the issuer shall file with the commissioner (1) a notice on Form D, 17 C.F.R. § 239.500, manually signed by a person duly authorized by the issuer which includes an undertaking by the issuer to furnish state securities administrators, upon their written request, with information furnished by the issuer to offerees; (2) a Uniform Consent to Service of Process (Form U-2) executed pursuant to section 36b-33 (g) of the general statutes; and (3) the filing fee prescribed under section 36b-21 (b) (9) of the general statutes. The issuer shall also provide the commissioner with the name and address of the person who will offer or sell the securities in this state, whether the person offering or selling the securities in Connecticut shall receive any direct or indirect remuneration related to offers or sales of such securities and whether such person is engaged in the business of effecting securities transactions.

(i) Failure to timely file the notice required by this section shall not, in and of itself, preclude reliance on the exemption afforded by section 36b-21 (b) (9) of the general statutes. If the commissioner finds that such notice has not been timely filed with respect to more than one offering, he may issue an order restricting the right to use exemptions under this section and section 36b-31-21b-9a of the regulations in the future. Such order may be directed to any person subject to the prohibition in section 36b-16 of the general statutes.

(j) Until such time as the offering has been completed, the issuer shall promptly notify the commissioner in writing of any material changes in the information

submitted pursuant to this section. The issuer shall also provide to the commissioner such additional information concerning the status or nature of the offering as the commissioner may request, either prior to, or following completion of the offering.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-21b-10. Reserved

Sec. 36b-31-21b-11. Exemption for transactions pursuant to an offer to existing security holders of the issuer

(a) The notice required by section 36b-21 (b) (11) (B) of the general statutes shall include the offeror's name; the issuer's name and address, and the type and amount of securities offered; the number of persons in Connecticut to whom the offeror expects to direct the offer; the offer's terms; the person or persons to whom the commission or other remuneration shall be paid or given; information from which the commissioner can determine that the commission or other remuneration that shall be paid is consistent with the policy in section 36b-20 (a) (2) (F) of the general statutes; a copy of any prospectus, pamphlet, circular or other sale literature or advertising communication regarding the offering and intended for distribution to persons in Connecticut; and additional information or documents which the commissioner may request within 10 business days after the notice is filed.

(b) For purposes of complying with the notice requirement in section 36b-21 (b) (11) (B) of the general statutes, the commissioner may accept from the issuer a copy of Form F-7 as designated by and filed with the United States Securities and Exchange Commission in lieu of the notice required by subsection (a) of this section.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-21b-12. Reserved

Sec. 36b-31-21b-13a. Exemption for transactions pursuant to Sections 4 (1) or 4 (4) of the securities act of 1933

In implementing section 36b-21 (b) (13) of the general statutes, a "transaction exempt under Section 4 (1), Section 4 (4) . . . of the Federal Securities Act of 1933, as amended, and the rules and regulations thereunder" shall include, but shall not be limited to, a transaction made in compliance with Rule 144 under the Securities Act of 1933.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-21b-13b. Exemption for transactions pursuant to section 4 (6) of the securities act of 1933

For purposes of section 36b-21 (b) (13) of the general statutes, as amended, issuers relying on the exemption in Section 4 (6) of the Securities Act of 1933 shall, prior to the first sale of securities in this state, file with the commissioner (a) a notice on Form D, 17 C.F.R. § 239.500 under the Securities Act of 1933, manually signed by a person duly authorized by the issuer which includes an undertaking by the issuer to furnish state securities administrators, upon their written request, with information furnished by the issuer to offerees; (b) a Uniform Consent to Service of Process (Form U-2) executed pursuant to section 36b-33 (g) of the general statutes; and (c) the filing fee prescribed under section 36b-21 (b) (13) of the general statutes. The issuer shall also provide the commissioner with the name and address of the person who will offer or sell the securities in this state, whether the person offering or selling the securities in Connecticut shall receive any direct or indirect

remuneration related to offers or sales of such securities and whether such person is engaged in the business of effecting securities transactions.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-21b-14. Exemption for transactions not involving more than 10 purchasers

In implementing section 36b-21 (b) (14) (B) of the general statutes, “the total number of purchasers of all securities of the issuer” shall be determined as of the date of the transaction effected in reliance on the exemption in section 36b-21 (b) (14) of the general statutes and shall include (a) persons who acquired their securities prior to the date of such transaction and who remain holders of such securities at the time of the transaction; (b) purchasers not located in Connecticut; and (c) purchasers of all classes of the issuer’s securities, provided, where a person holds or is acquiring securities of more than one class, that person shall be considered a single purchaser in implementing section 36-490 (b) (14) (B) of the general statutes.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-21b-15. Reserved

Sec. 36b-31-21c. Summary denial or revocation of exemption

If a summary order is issued, an opportunity for a hearing under section 36b-21 (c) of the general statutes shall be granted only if a written request for such hearing is filed within 14 days following the respondent’s receipt of the order. The hearing shall be held in accordance with chapter 54 of the general statutes.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-22. Filing of sales literature with the commissioner

(a) An issuer of securities shall file with the commissioner any prospectus, pamphlet, circular, form letter, advertisement or other sales literature or advertising communication addressed or intended for distribution to prospective investors unless the security or transaction, other than a transaction exempted by section 36b-21 (b) (12) of the general statutes, is exempted by section 36b-21 of the general statutes and the terms of the exemption do not require any such filing.

(b) Absent a request from the commissioner, pamphlets, circulars, form letters, advertisements or other sales literature addressed or intended for distribution to prospective investors in connection with a public offering of securities issued by an open-end company, unit investment trust or face amount certificate company registered under the Investment Company Act of 1940, 15 U.S.C. § 80a-1 et seq., shall be exempt from the filing requirements of subsection (a) of this section if such materials are filed with the United States Securities and Exchange Commission pursuant to Section 24 (b) of the Investment Company Act of 1940 or with a national securities association registered under Section 15A of the Securities Exchange Act of 1934 in accordance with Securities and Exchange Commission Rule 24b-3, 17 C.F.R. § 240.24b-3; provided, nothing in this subsection shall exempt from the filing requirements of subsection (a) any prospectus, preliminary prospectus, prospectus supplement, statement of additional information or annual report addressed or intended for distribution to investors or prospective investors of investment company securities.

(c) Unless an investment adviser is registered under the Investment Advisers Act of 1940, any prospectus, pamphlet, circular, form letter, advertisement or other sales literature or advertising communication addressed or intended for distribution to clients or prospective clients shall be filed with the commissioner prior to distribution.

(Effective August 22, 1994, transferred July 3, 1995)

Secs. 36b-31-23—36b-31-30. Reserved

Sec. 36b-31-31a. Forms

(a) The following forms, as amended from time to time, are prescribed for use under the Act and sections 36b-31-2 to 36b-31-3, inclusive, of the regulations:

(1) Uniform Application to Register Securities (Form U-1 or CT-3) (used for registration by coordination and registration by qualification);

(2) Uniform Consent to Service of Process (Form U-2 or CT-4) (used with registration of securities);

(3) Uniform Form of Corporate Resolution (Form U-2A) (used with Form U-2 or CT-4);

(4) Small Corporate Offering Registration Form or SCOR (Form U-7) (used for registering by qualification certain offerings exempt from federal registration under Rule 504 of Regulation D);

(5) Uniform Application for Registration as a Broker-Dealer or to Amend such an Application (Form BD);

(6) Uniform Application for Securities and Commodities Industry Representative and/or Agent (Form U-4) (used for agent of broker-dealer, agent of issuer and investment adviser agent registration);

(7) Uniform Notice of Withdrawal from Registration as a Broker-dealer (Form BDW);

(8) Uniform Termination Notice for Securities Industry Representative and/or Agent (Form U-5) (used for termination of agent and investment adviser agent registration);

(9) Uniform Application for Registration as Investment Adviser or to Amend such an Application (Form ADV);

(10) Uniform Notice of Withdrawal from Registration as an Investment Adviser (Form ADV-W);

(11) Form D (used for certain offerings made pursuant to sections 36b-21 (b) (9) and 36b-21 (b) (13) of the general statutes);

(12) Form BR-1 (used for broker-dealer and investment adviser branch office registration);

(13) Form BR-2 (used for termination of broker-dealer and investment adviser branch office registration); and

(14) Form DBA-1 (used for reporting trade names of registrants).

(b) The forms prescribed in this section except Forms BD, BDW, D, U-4, U-5, ADV and ADV-W may be obtained on request addressed to the Securities and Business Investments Division of the Connecticut Department of Banking. Accurate reproductions of forms may also be used. Securities and Exchange Commission Forms BD, BDW and D may be obtained from the United States Securities and Exchange Commission, and Forms U-4 and U-5 from any national securities exchange or from the National Association of Securities Dealers, Inc. The commissioner reserves the right to issue revisions or amendments to the forms from time to time.

(c) Only an executed copy of any form should be filed with the commissioner. (Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-31b. Filing of documents; filing fees

(a) All applications and other documents received and filed with the commissioner become a part of the agency's records and shall not be returned to the applicant or correspondent.

(b) All forms and documents filed with the commissioner shall be printed, lithographed, mimeographed, typewritten, or prepared by a photocopying process which, in the opinion of the commissioner, produces copies suitable for a permanent record and shall be clear, easily readable and suitable for repeated photocopying.

(c) Exhibits to forms and documents may be attached as additional sheets or filed separately. An exhibit to a prior application may be incorporated by reference in a subsequent application.

(d) **Filing fees are not refundable.** Fees shall be remitted by check, draft or money order, but not by personal check or cash, payable to “Treasurer, State of Connecticut.”

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-31c. Exemptions from sections 36b-31-2 to 36b-31-33, inclusive, of the regulations

The commissioner may exempt a person, security or transaction from a specified provision of sections 36b-31-2 to 36b-31-33, inclusive, of the regulations upon a finding that such exemption is in the public interest.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-31d. Incorporation of federal statutes, rules and opinions

Any regulation requiring compliance with a federal statute, rule or interpretive opinion (excluding “no action letters”) of the Securities and Exchange Commission or other administrative agency incorporates such statute, rule or interpretive opinion, as amended from time to time, by reference and makes it a part of sections 36b-31-2 to 36b-31-33, inclusive, of the regulations as fully as if it were set forth herein.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-31e. Advisory interpretations

The commissioner, or employees of the department of banking authorized by him may, whether or not requested by any person, issue written advisory interpretations of sections 36b-31-2 to 36b-31-33, inclusive, of the regulations, including interpretations of the applicability of any provision of sections 36b-31-2 to 36b-31-33, inclusive, of the regulations.

(Effective August 22, 1994, transferred July 3, 1995)

Sec. 36b-31-31f. Hearings

The commissioner or the designated hearing officer may during the course of a hearing establish rules to maintain the orderly conduct and proceedings of the hearing.

(Effective August 22, 1994, transferred July 3, 1995)

Secs. 36b-31-32—36b-31-33. Reserved