



STATE OF CONNECTICUT
DEPARTMENT OF BANKING
STATE OFFICE BUILDING
HARTFORD, CT 06106

*File Securities
Bulletins*



BRIAN J. WOOLF
BANKING COMMISSIONER

SECURITIES AND BUSINESS INVESTMENTS DIVISION

HOWARD B. BROWN
DEPUTY BANKING COMMISSIONER

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BANKING COMMISSIONER'S COMMENTS

This is the first edition of the Bulletin published by the Securities and Business Investments Division of the Connecticut Department of Banking. This and subsequent editions will feature matters pertaining to significant administrative actions, advisory interpretations, broker-dealer and investment adviser registration, securities and business opportunity registration, and securities enforcement and examination. From time to time, the Bulletin will provide an in-depth analysis of current administrative developments, as well as an Investor Alert Section, which will highlight matters of general concern to the investment community.

It is envisioned that the Bulletin will be published on a quarterly basis. The Division offers it as an educational vehicle to the securities industry, the investment community, securities practitioners, and other interested persons. Your suggestions and comments on matters contained herein are encouraged. General suggestions and comments should be directed to the Division Director Mr. Caleb L. Nichols. Specific questions may be directed to the respective individuals whose names appear above. I certainly hope you will find this publication useful and informative.

Brian J. Woolf
Banking Commissioner

ENFORCEMENT AND EXAMINATION SECTION

The Examination Section of the Securities & Business Investments Division is primarily responsible for conducting routine examinations of broker-dealers and investment advisers with their principal place of business or branches located in Connecticut. In addition, investigations initiated by public complaints and other sources are handled by the Examination Section.

All main offices and branch offices of broker-dealers located within the state are examined for compliance with the Connecticut Uniform Securities Act, the Securities Act of 1933, the Securities and Exchange Act of 1934, and the rules set forth by the New York Stock Exchange and the National Association of Securities Dealers, Inc. Among the documents reviewed during an exam are commission runs, salesmen's handbooks, order tickets, confirmations, monthly statements, and complaint and litigation files. Procedures and policies are also reviewed, with special emphasis on back office procedures.

Investment advisers are examined in the same manner as are broker-dealers. Financial books and records, advisory contracts, client information, and recommendation lists are included in those documents reviewed by an examiner during routine inspections. Investment advisers must comply with the Connecticut Uniform Securities Act and the Investment Advisers Act of 1940.

The enforcement matters handled by the Enforcement Section are generally initiated as a result of public complaints and other state or federal agency referrals. Investigations are conducted with the objective of determining whether violations of the Connecticut Uniform Securities Act have occurred. In all investigations there is also considerable attention paid to any possible violations of federal securities laws, stock exchange rules, and the rules of the National Association of Securities Dealers, Inc. Inquiries and investigations may be referred to other regulatory or prosecuting authorities for administrative, criminal, or civil action. In addition, investigations which are initiated by investors themselves are encouraged.

Investigations handled by the Enforcement Section entail the conducting of personal interviews to obtain sworn affidavits, the compilation of detailed reports on investigation files, analysis of financial records, and the gathering of documents for use during investigatory inquiries. In some instances examiners are also needed to testify in administrative hearings. These activities make it necessary for examiners to travel extensively in Connecticut and occasionally to other states.

The Enforcement Section is also responsible for the enforcement of the Connecticut Business Opportunity Investment Act which became effective July 1, 1979. This statute regulates the sale and offer for sale of business opportunities in Connecticut and contains fraud provisions which are similar to those found in the Connecticut Uniform Securities Act. Accordingly, examiners

handle investigative matters concerning business opportunities in much the same manner as they do those in the area of securities. Connecticut was one of the first states to enact a Business Opportunity Investment law. Since 1979, when the business opportunity legislation became effective, enforcement has become an area of increasing concern. As with securities matters, examiners generally find that cooperation with other regulatory agencies, both federal and state, greatly increases their success in enforcing this relatively new law.

The Examination Section conducts routine inspections of approximately 70 broker-dealers and 60 investment advisers annually. Examiners also handle about 160 securities investigations and 60 business opportunity investigations each year.

CEASE AND DESIST ORDERS

On April 15, 1983 the Division issued a Cease and Desist Order against Executive Oil Centers, Inc., 12 Weston Street, Hartford, CT 06120 for fraudulent activities in the sale of business opportunities.

Also on April 15, 1983 a Cease and Desist Order was issued against Executive Oil Centers, 12 Weston Street, Hartford 06120 for the sale of unregistered securities.

On May 20, 1983, the Division issued a Cease and Desist Order against Pasadena Partnership, 2701-59th Street South, St. Petersburg, Fl 33707 for the sale of unregistered securities.

On May 25, 1983, three Cease and Desist Orders were issued to companies that sold unregistered business opportunities in Connecticut. The three companies were: Surgi-Graft System, 943 Silas Deane Highway, Wethersfield, CT 06109, Women's Weight Loss Clinics of America, Inc., 3200 West Market Street, Suite 305, Akron, OH 44221; and PolyCarb, 33095 Bainbridge Road, Solon, OH 44139.

CRIMINAL REFERRALS

On June 30, 1983 a referral was made to John M. Bailey, State's Attorney for Hartford County, of the results of an investigation involving several limited partnerships of which William E. Chipman, the former principal of the Hartford Hellions, was a general partner or affiliate.

In making this referral, Commissioner Woolf announced that the Securities and Business Investments Division of the Department of Banking completed its investigation which centered around the possible diversion of investors' funds invested in oil and gas drilling programs and real estate limited partnerships which were managed by William E. Chipman. This referral received front page coverage in the Hartford Courant, a daily newspaper with the largest circulation in Connecticut.

BROKER-DEALER AND INVESTMENT ADVISER REGISTRATION SECTION

This section, under the supervision of Maryellen Meara, is charged with the administration of state laws and regulations relating to broker-dealers and investment advisers and their agents, as well as agents of issuers.

The Connecticut Uniform Securities Act requires the registration of all persons publicly selling or offering for sale securities and of all persons offering investment advice within or from the state.

This section processes applications for registration to determine the fitness as to character, experience, and financial responsibility of the applicants.

The registrations, transfers, suspensions and cancellations are recorded on computer. Billing for registration is done by computer.

Forms

Forms used to register a broker-dealer are Form BD along with supplemental Connecticut forms issued by the Division. A non-refundable \$250 registration fee is required. Form BD is also used for filing amendments.

Form U-4 is used for the application of new broker-dealer agents. Signatures must be original and a photograph and proof that the prospective agent has passed the exam for registered representative administered by the National Association of Securities Dealers (NASD) should be submitted with the application. If the agent is also an officer, proof that the agent passed the exam for principals is necessary for the agent to transact business as an agent in this state. The agent registration fee is \$50. Connecticut will begin processing agent registrations through the Central Registration Depository System (CRD) on August 29, 1983. CRD will enable NASD member firms to register their agents in Connecticut through the system. The NASD will collect registration and renewal fees for these agents and remit them to the State.

Form U-4(1) is used to apply for registration as an agent of issuer. Form U-4(1) may be obtained from the Broker-Dealer and Investment Adviser Registration Section. Proof that the agent has passed the Uniform State Agent Law Examination (USALE) or the exam for registered representatives must be submitted.

Form U-5 should be submitted promptly upon termination of an agent's employment with a particular broker-dealer.

Transfers of an agent from one firm to another may be accomplished by (1) the submission of a letter from the agent requesting such transfer, (2) the submission of a letter from the new firm requesting the transfer, and (3) the submission of Form U-5 by the former employer to the Division or to the NASD for processing through the CRD System.

Form ADV is used when applying for registration as an investment adviser. This form is also used for amendments. A \$250 initial registration fee is required for applications.

The Connecticut Form SC-3 is used when applying for registration as an investment adviser agent. No examination is required. The registration fee is \$50.

Registration of Broker-Dealers, Agents,
Investment Advisers and Investment Adviser Agents

A registration is not effective until formally entered upon the Register and appropriate notice is forwarded to the applicant.

All registrations expire December 31 of each year. A renewal invoice will be mailed out at that time with a \$150 fee for the broker-dealer firm and a \$30 fee for each agent. Payment of the invoice constitutes renewal. NASD members may renew their agents through CRD.

All registrants are reminded that they have a duty to update their original applications. This is accomplished by filing amendments.

A statement of financial condition must be filed with each new broker-dealer or investment adviser application. For broker-dealers, such statement of financial condition (1) shall be in such detail as will disclose the nature and amount of assets and liabilities and the net worth of such broker-dealer, and (2) contain a computation of his aggregate indebtedness and net capital which shall comply with the requirements applicable to the business of such broker-dealer under Rule 15(c)(3)(1) under the Securities Exchange Act or under the net capital rule of the national securities exchange of which such broker-dealer is or has in good faith filed an application to become a member.

Annual filing of audited financial statements must be accomplished not more than 60 days following the end of the calendar or fiscal year.

Current registration statistics as of June 1983 are as follows:

Broker-dealers	834
Broker-dealer Agents	20,761
Investment Advisers	246
Investment Adviser Agents	986
Agents of Issuer	265

Staff Responsibilities

Broker-dealer and investment adviser registrations - Maryellen Meara.

New broker-dealer agent registrations - Tia Damato.

New investment adviser agent registrations and agent of issuer registrations - Doris Kinsley.

Agent transfers, terminations, reinstatements and address changes - Olympia Thompson.

Financial filings and billing procedures - Thomas Dolan.

Secretarial support - Ann Cody

Agent of Issuer

Writers and callers frequently question the examination requirements for agents of issuer. Section 36-500-6(g) of the Regulations of Connecticut State Agencies promulgated pursuant to Chapter 662 of the Connecticut General Statutes states:

Each applicant for registration as an agent shall supply evidence to the commissioner that he or she has taken and successfully passed an examination given by the Securities and Exchange Commission or an independent self regulating group of the securities industry registered with the Securities and Exchange Commission before his or her application will be considered for any action whatsoever by the commissioner.

The Banking Commissioner accepts the Uniform State Administrators State Law Examination (USASLE) to satisfy the examination requirement for agents of issuer. Arrangements to take the USASLE examination may be made with the National Association of Securities Dealers.

CRD COMES TO CONNECTICUT

Since Connecticut is one of the five largest states in the number of securities agents registered, we welcome entry into the nationwide computerized centralized system for registration of securities agents. The system is known as the Central Registration Depository ("CRD").

The CRD system is the product of cooperative efforts between securities regulatory agencies (state and federal) and securities industry associations. Under the CRD system, a securities agent files one registration application centrally with the National Association of Securities Dealers, Inc. (NASD) and indicates in which states he desires to be registered.

Although we anticipate an increase in the number of registrants, we expect to be able to better service registrants through the elimination of paperwork.

Effective August 29, 1983, all agent registrations, transfers, terminations, as well as year-end renewal filings by NASD members only, will be accomplished entirely through the CRD.

All filings with the appropriate fee of \$50.00 must be sent to:

NASAA/NASD Central Registration Depository
Post Office Box 37441
Washington, D.C. 20013

All checks forwarded to the CRD in payment for agent applications must be made payable to the "National Association of Securities Dealers, Inc." Make sure that the state block for Connecticut is checked on Form U-4 and Form U-5 filings.

NASD members not familiar with CRD filing procedures should review NASD Notice to Members 81-7 to avoid filing deficiencies.

SECURITIES & BUSINESS
OPPORTUNITY REGISTRATION SECTION

This section is responsible for the registration of securities, business opportunities and tender offers; for receiving documents and any fees required to be filed in connection with certain exempt transactions; and for responding to inquiries regarding registration and the availability of exemptions and exclusions.

Securities for which a registration statement has been filed with the Securities and Exchange Commission may be registered by coordination. A registration statement containing the application to register securities (Form U-1 or CT-3), all applicable documents listed in item 8 on the application, the appropriate filing fee and the names of any broker-dealer or agent of the issuer registered under the Connecticut Uniform Securities Act who will offer the securities must be filed. A fee of \$300 is required for registration of securities of an open-end investment company or unit investment trust. Registration of all other securities requires a filing fee of one-tenth of one percent of the maximum aggregate offering price of securities to be offered in this state, such fee not to exceed fifteen hundred dollars (\$1500.00) nor to be less than three hundred dollars (\$300.00).

Upon receipt of the registration statement, the Section will notify the applicant of the date of receipt and the need to file additional documentation. A review will then be undertaken to determine whether the offering materials provide full disclosure and whether a stop order need be issued pursuant to the provisions of Section 36-489 of the Connecticut Uniform Securities Act. Any amendments to the materials filed must be promptly submitted for review and redlined to indicate changes.

Registration by Coordination

A registration filed by coordination is effective concurrently with SEC effectiveness provided the registration statement (including required documentation) has been on file for at least fifteen (15) days; a notice of the minimum and maximum offering prices and maximum commissions has been on file for at least two days; no stop order is in effect; and the applicant has informed the Section of the date and time of SEC effectiveness and the contents of the final pricing amendment. An order evidencing effectiveness and providing requirements for maintaining the registration will be issued upon written notice of the final pricing information and the date and time of SEC effectiveness.

Registration by Qualification

Any security may be registered by qualification. The application, appropriate filing fee, and information and offering circular required by Section 36-487 of the Connecticut Uniform Securities Act, together with a cross-reference sheet indicating the presence of required information must be filed. The registration statement will be reviewed for full disclosure and to determine whether a stop order need be issued pursuant to the provisions of Section 36-489 of the Connecticut Uniform Securities Act. Any amendments to the materials filed must be promptly submitted for review and redlined to indicate changes. A registration by qualification is effective when the Commissioner so orders.

Exemptions

Private placement exemption filings (including filings for offerings exempt under Rules 505 and 506 of Regulation D or under Section 4(2) of the Securities Act of 1933) must comply with the provisions of the Banking Commissioner's order dated May 4, 1983. (See the following discussion of the order issued pursuant to section 36-490(b)(9)(C) of the Connecticut Uniform Securities Act).

Issuers proposing to offer Securities in reliance upon most other exemptions from registration must submit a consent to service of process appointing the Banking Commissioner as agent for service (Form U-2) together with a cover letter indicating reliance on the appropriate exemption. The Section will acknowledge receipt of the consent to service of process.

Discussion of the Order Issued Pursuant to Section 36-490(b)(9)(C) of the Connecticut Uniform Securities Act

On May 4, 1983 the Banking Commissioner issued an order pursuant to Section 36-490(b)(9)(C) of Chapter 662 of the Connecticut General Statutes, the Connecticut Uniform Securities Act (the "Act"). This order coordinates the exemptive provisions of Rules 505 and 506 of Regulation D as well as offerings exempt under Section 4(2) of the Securities Act of 1933 with Sections 36-490

(b)(9)(A) and 36-490(b)(9)(B) of the Act. The Banking Commissioner's staff reviews the information received for strict compliance with the order.

An issuer who proposes to issue a security in reliance upon Section 36-490 (b)(9)(A) of the Act and Rule 506 of Regulation D or Section 36-490(b)(9)(B) of the Act and Rule 505 of Regulation D must provide the Commissioner with the following information:

1. Prior to the first sale of securities in this state:
 - a. A notice on Form D manually signed by a person duly authorized by the issuer.
 - b. A consent to service of process executed pursuant to Section 36-502(g) of the Act.
 - c. An undertaking by the issuer to furnish to the Commissioner, upon written request, the information furnished by the issuer under Rule 502(b)(2) of Regulation D, 17 C.F.R. Section 230.502(b), and under paragraph 5(C)(3) of the order dated May 4, 1983 to any purchaser in this state.
 - d. A \$25 filing fee made payable to "Treasurer, State of Connecticut."
2. A second notice on Form D must be filed with the Commissioner no later than 15 days after the last sale of securities in this state. The second notice must report the issuer's name and the information required by Part C of Form D and any material change in the facts as set forth in Parts A & B of the first notice.

An issuer which does not propose to offer a security in reliance on Regulation D but rather on the exemption in Section 36-490(b)(9)(A) of the Act and Section 4(2) of the Securities Act of 1933, as amended, shall provide the Commissioner with the following information prior to the first sale of securities in this state:

- a. A notice manually signed by a person duly authorized by the issuer. The notice shall contain the issuer's name and address; the name 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; the amount of securities to be sold; and the name of any registered broker-dealer or agent who may sell the securities.
- b. A consent to service of process form executed pursuant to Section 36-502(g) of the Act.

c. An undertaking by the issuer to furnish to the Commissioner, upon written request, any offering materials used in connection with the sale of the securities in this state.

d. A \$25 filing fee made payable to "Treasurer, State of Connecticut."

The May 4, 1983 order superseded a prior order issued pursuant to Section 36-490(b)(9)(C) of the Act on September 3, 1982.

The May 4, 1983 order differs from the September 3, 1982 order in that, with respect to offerings exempt under Regulation D, the May 4, 1983 order:

- 1) Clarifies that the general Regulation D requirements, including the filing of a notice on Form D do not apply to a "straight 4(2)" offering.
- 2) Incorporates the provisions of Regulation D to a greater degree, thus streamlining the language of the order and making it easier to understand.
- 3) Alters the mandatory 15% commission ceiling. The May 4, 1983 order imposes such a ceiling only if a statement itemizing any commissions, discounts and other similar remuneration (excluding legal, accounting and printing fees) paid or given directly or indirectly in connection with the sale is not filed with the Commissioner prior to the first sale in this state and is not given to each purchaser in this state prior to a sale to that purchaser. The May 4, 1983 order contains the proviso that the requirement for itemization of commissions does not affect the necessity for those disclosures required by Rule 502 of Regulation D and paragraph 5(C)(3) of the order. The May 4, 1983 order also removes the express provision that any commissions, discounts or other similar remuneration be paid or given only to Connecticut-registered broker-dealers or agents.
- 4) The May 4, 1983 order alters the so-called "bad boy provisions" to provide that an exemption will not be denied if the person subject to the administrative order or judgment is currently licensed to conduct securities-related business where the administrative order or judgment was entered.
- 5) The May 4, 1983 order clarifies the jurisdictional limits of the order by inserting the phrase "in this state" where appropriate.
- 6) The May 4, 1983 order alters the provision concerning limitations on resale for Regulation D offerings to make its meaning correspond with that of the federal securities provision.

- 7) The May 4, 1983 order provides that failure to file a notice on Form D will not, in and of itself, constitute grounds for the denial of an exemption under paragraphs 5(A)(2) or 5(B) of the order. The commissioner, however, may suspend the right to use such exemptions in the future if he finds that such notice has not been filed with respect to more than one transaction.
- 8) The May 4, 1983 order imposes a general notice filing requirement for "straight 4(2)" offerings.

Copies of the May 4, 1983 order are available upon request.

Business Opportunity Offerings

Business opportunity offerings may be registered by submitting the application for registration (Form CBOIA-1) and consent to service of process (Form CBOIA-2) together with the disclosure document required under Section 36-506 of the Connecticut Business Opportunity Investment Act, a copy of any contracts, agreements, brochures or other documents relating to the business opportunity and the required \$200.00 filing fee. The disclosure document and agreements will be reviewed for full disclosure and to determine if the requirements of Sections 36-507 and 36-509 of the Connecticut Business Opportunity Investment Act are met. In addition, all materials filed will be reviewed to determine whether they contain information inconsistent with that provided in the disclosure document and whether it will be necessary for the seller to provide a bond or trust account pursuant to the provisions of Section 36-507 of the Connecticut Business Opportunity Investment Act.

Inquiries

Persons interested in determining whether a security or business opportunity has been effectively registered or whether a filing has been made in connection with an exemption from registration may telephone Jean Foto at (203) 566-4560 ext. 69. Inquiries regarding registration requirements, the availability of exemptions or exclusions or general inquiries may be directed to the following:

Securities Registrations Private Placements Business Opportunities	Virginia Hughes or William Olesky Margot T. O'Grady Beth J. Briggs	(203) 566-4560 ext. 82 and 71 ext. 83 ext. 70
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ADVISORY INTERPRETATION REQUEST PROCEDURE

The Securities and Business Investments Division of the Department of Banking is often asked to give legal advice regarding Chapter 662 of the Connecticut General Statutes, The Connecticut Uniform Securities Act, and Chapter 662a of the Connecticut General Statutes, the Connecticut Business Opportunity Investment Act. Employees of the Department of Banking authorized by the Banking Commissioner may issue written advisory interpretations of these chapters.

The Department of Banking is not a substitute for private legal counsel. Therefore, prior to sending a written inquiry to this department, you should review the facts with your counsel. If you and your counsel require the assistance of the Department, you may request that the Department review your situation and issue an advisory interpretation.

When requesting an advisory interpretation the following procedure, should be used and will facilitate an expeditious response.

1. State what section of the statute or regulations the request concerns.
2. State the fact situation accurately and include a copy of all relevant documents including offering materials, contracts, etc.
3. State the legal issues presented by your request.
4. Present counsel's analysis of the issues and counsel's conclusions. If counsel has not stated an opinion, provide the Department with your analysis of the issues presented and your conclusions.

The Department is not required to respond to such requests and will not consider requests based on hypothetical facts, past transactions or (nameless parties). All parties must be fully identified and the facts stated completely and accurately. Requests for advisory interpretations may require in depth review and therefore, requests involving complex issues should be submitted sufficiently in advance to permit adequate time for review. Expedited treatment is not possible for ambiguous requests.

Advisory interpretations are provided only for the use of the person requesting them. Facts or conditions different from those presented may require different conclusions and persons other than those requesting the opinion or letter should not rely on it.

Requests for advisory interpretations should be directed to:

Caleb Nichols, Director
Securities and Business Investments Division
Department of Banking, Room 229
State Office Building
165 Capitol Avenue
Hartford, CT 06106

or

Cynthia Antanaitis, Assistant Counsel
Department of Banking, Room 225
State Office Building
165 Capitol Avenue
Hartford, CT 06106

NEW LEGISLATION

Connecticut Uniform Securities Act Public Act 83-368 (effective May 26, 1983)

On May 26, 1983, the Governor signed into law Public Act 83-368 which made various changes to the Connecticut Uniform Securities Act (the "Act"). Summarized are the most important changes. They are effective as of May 26, 1983.

Changes Affecting Broker-Dealer, Agent, Investment Adviser and Investment Adviser Agent Registration

- Section 36-471(b) of the Act, which defines "agent", has been amended. No longer is there an automatic exclusion from the "agent" definition for persons representing an issuer in effecting transactions exempted by Section 36-490(b)(9) of the Act. Consequently, there is no automatic exclusion for persons effecting transactions in securities exempt under Section 4(2) of the Securities Act of 1933, Rule 506 of Regulation D or Rule 505 of Regulation D.
- Section 36-471(b) of the Act has also been amended to provide that a general partner (vs. a limited partner) of a broker-dealer or issuer is an agent only if he otherwise comes within the definition of "agent" and only if he receives compensation directly or indirectly related to purchases or sales of securities.
- The definition of "broker-dealer" found in Section 36-471(c) of the Act has been amended to remove the exclusion for persons with no place of business in this state who do not direct more than 15 offers to sell or buy into Connecticut during any period of twelve consecutive months.
- The definition of "investment adviser agent" found in Section 36-471(g) of the Act has been amended to remove the automatic exclusion for partners of an investment adviser. Like officers or directors, partners now may be considered investment adviser agents if they otherwise come within that definition.

