Achievable

NASAA SERIES 65 / 66 DUMP SHEET

Federal laws, regs, ethics & accounts

Securities Act of 1933

- Primary market legislation
- Requires issuers to make disclosures by prospectus
- Registration filed, then a 20-day cooling-off period:
  - **Allowed:** indications of interest, tombstone ads, red herring (preliminary prospectus)
  - **Prohibited:** sales, recommendations, advertising
- Exempt securities:
  - Government securities
  - Bank, savings & loan securities
  - Non-profit, religious securities
  - Commercial paper (270 days or fewer)
- Exempt transactions:
  - Regulation D private placement (35 or fewer non-accredited investors)
  - Accredited investors:
    - $1 million net worth (excluding residence)
    - $200k (single) / $300k (joint) income for 2+ years
    - Financial institutions
    - Non-financial organizations with $5 million+ in assets
    - Officers, directors, or partners of the issuer
    - Series 7, 65, or 82 holders

Securities Exchange Act of 1934

- Secondary market legislation
- Regulates securities markets and their participants
- Created the SEC
- All forms of fraud are illegal and prohibited
- Market manipulation is prohibited:
  - Spreading false rumors
  - Painting the tape / matched orders
  - Pump and dump schemes
  - Marking the open or close

Investment Advisers Act of 1940

- Defines and regulates federal covered advisers
- Covered advisers register with the SEC
- Must make a notice filing with the state administrator
- Unique rules (compared to the USA):
  - **Excluded:** advisers only giving advice on US government securities
  - **Exempt:** intrastate advisers (no advice on exchange-listed securities)
  - **Exempt:** advisers only serving insurance companies
  - Registration effective 45 days after filing

SEC Release IA-1092

- Reaffirmed the investment adviser definition (ABC rule)
- Considers the following investment advisers:
  - Financial planners
  - Pension consultants
  - Athlete & celebrity advisers

Federal criminal penalties (5-10-5 rule)

- Penalties if willfully violating the law (per violation):
  - 5-year statute of limitations
  - $10,000 maximum fine
  - 5-year maximum jail sentence

Insider Trading Act of 1988

- Trading on material, non-public information is prohibited
- $25 million maximum fine (firms)
- $5 million maximum fine, 20-year maximum jail sentence (individuals)
- Treble civil penalties (3× profit made or loss avoided)

Investment adviser compensation

- May collect from any client:
  - Fixed fees
  - Hourly fees
  - AUM fees
- Performance fees only from qualified clients:
  - $1.4 million invested with the adviser
  - $2.7 million net worth
- Commissions only through an affiliated broker-dealer
- Wrap fee programs:
  - Trading and management fees “wrapped” into one fee
- Soft dollar compensation:
  - Disclose if compensated for sending trades to a broker-dealer
  - **Allowed:** research, newsletters, investing software, seminar access
  - **Prohibited:** travel or hospitality expenses, office equipment

Broker-dealer compensation

- Agency (broker) transactions = commissions
- Principal (dealer) transactions = markups/markdowns
- Not included in the fee disclosure template:
  - Commissions
  - Markups/markdowns
  - Advisory fees if dual registered as an IA