Achievable

NASAA SERIES 63 / 65 / 66 DUMP SHEET

State laws and regulations

Criminal penalties (5-5-3 rule)

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

Federal covered advisers

- Eligible for SEC registration:
  - $100—$110 million AUM
  - Registered in 15 or more states (multi-state adviser rule)
- Must register with the SEC:
  - More than $110 million AUM
  - Advisers to registered investment companies
- Must withdraw (return to state registration):
  - AUM falls below $90 million

Custody

- Custody means:
  - Holding client funds or securities
  - Keeping client funds received by mistake more than 3 business days
  - Authority to withdraw from a client's account
- Requirements for investment advisers:
  - Confirm the state allows custody
  - Notify the state administrator on Form ADV
  - Place assets with a qualified custodian
  - Send quarterly statements
  - Annual surprise audit (filed on Form ADV-E)
  - $35,000 minimum net worth (vs. $10,000 for discretion)

Offers & sales

- **Offer:** attempt to dispose of, or solicitation of an offer to buy, a security for value
- **Sale:** contract of sale of, contract to sell, or disposition of, a security for value
- Considered offers and/or sales:
  - Bonus offer of securities
  - Gift of assessable stock
  - Warrants, rights, derivatives, and convertibles
- Not considered offers or sales:
  - Bona fide pledges or loans
  - Corporate actions
  - Stock dividends
  - Gift of non-assessable stock

Civil liabilities

- Liabilities if unknowingly violating the law:
  - 3-year statute of limitations
  - No later than 2 years after discovery
- **Right of rescission:** written offer to buy the security back
  - At the original cost, plus interest & legal fees, minus income received
  - Client has 30 days to accept or reject

Federal covered securities

- Regulated by the SEC, exempt from state registration:
  - Exchange-listed securities (and equal or senior securities of the same issuer)
  - Investment company securities
  - Rule 506 (Regulation D) private placements
  - Certain federally exempt securities (US government, out-of-state municipal)

Securities exemptions

- **Exempt securities:** government (US, Canadian, national foreign), bank, insurance, common carrier & utility, federal covered, non-profit, promissory notes, employee benefit plans
- Exempt transactions:
  - Private placements (offers to 10 or fewer retail investors in 12 months)
  - Isolated non-issuer transactions
  - Unsolicited non-issuer transactions
  - Certain fiduciary transactions (executor, sheriff, bankruptcy trustee, guardian, conservator)
  - Debt-related transactions (bona fide pledges and loans)
  - Transactions between issuers and underwriters
  - Institutional transactions
  - Offer of pre-organization certificates (10 or fewer subscribers, no payments)

Registering securities in a state

- **Notice filing:** federal covered securities only; not a state registration (easiest)
- **Coordination:** SEC and state registration at once; interstate securities that aren't federal covered
- **Qualification:** state registration only (SEC exempt); intrastate securities (hardest)