



Securities Act of 1933

- ✓ Primary market legislation
- ✓ Requires issuers make disclosures by prospectus
- ✓ Registration form filed, 20-day cooling off period
 - **Allowed:** indications of interest, tombstone, red herring
 - **Prohibited:** sales, recommendations, advertising
- ✓ Exempt securities
 - Government securities
 - Bank, savings & loan securities
 - Non-profit, religious securities
 - Commercial paper (270 days or fewer)
- ✓ Exempt transaction
 - Regulation D private placement (35 or fewer non-accredited investors)
 - Accredited investor:
 - \$1 million net worth (excluding residence)
 - \$200k (single) income / \$300k (joint) income
 - Financial institution
 - Non-financial orgs w/ \$5 million+ in assets
 - Officers, directors, or partners of 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 rumor
 - Pump and dump scheme
 - Painting the tape / matched orders
 - Marking the open or close



Investment Advisers Act of 1940

- ✓ Defines and regulates federal covered advisers
- ✓ Covered advisers subject to SEC registration
- ✓ Must perform notice filing with state administrator
- ✓ Unique rules (as compared to USA)
 - Exempt - Persons only giving advice on US Gov't securities
 - Exempt - Intrastate advisers (no advice on listed securities)
 - Exempt - Only giving advice to insurance companies
 - Registration effective 45 days after filing



SEC Release IA-1092

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



Federal criminal penalties (5-10-5 rule)

- ✓ Penalties if willfully violating law:
 - 5-year statute of limitation
 - 5-year max jail sentence
 - \$10,000 max fine



Insider Trading Act of 1988

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



Investment adviser compensation

- ✓ May collect from any client via:
 - Fixed fee
 - Hourly fee
 - AUM fee
- ✓ Collect performance fees only from qualified clients
 - \$1.1 million invested w/ adviser
 - \$2.2 million net worth
- ✓ May only collect commissions only from affiliated B/D
- ✓ Wrap fee program compensation
 - Trading and management fees "wrapped up"
- ✓ Soft dollar compensation
 - Disclose if compensated for sending trades to B/D
 - Allowed: Research, newsletters, trading programs, seminar fee
 - Prohibited: Travel or hospitality expense, office equipment



Broker-dealer compensation

- ✓ Agency (broker) transactions = commission
- ✓ Principal (dealer) transactions = markups/markdowns
- ✓ Not included in fee disclosure template
 - Commission
 - Markups/markdowns
 - Advisory fees if dual registered as IA