

Fifty-ninth
Legislative Assembly
of North Dakota

ENGROSSED HOUSE BILL NO. 1176

Introduced by

Industry, Business and Labor Committee

(At the request of the Securities Commissioner)

1 A BILL for an Act to amend and reenact section 10-04-02, subsection 1 of section 10-04-03,
2 sections 10-04-05 and 10-04-06, subsections 2 and 3 of section 10-04-07.1, sections 10-04-08
3 and 10-04-08.3, subsection 2 of section 10-04-08.4, sections 10-04-09 and 10-04-10,
4 subsections 1 and 2 of section 10-04-10.3, sections 10-04-11, 10-04-12, 10-04-15, and
5 10-04-16, subsection 1 of section 10-04-16.1, section 10-04-17, and subsections 1 and 2 of
6 section 10-04-18 of the North Dakota Century Code, relating to definitions under the securities
7 laws, securities exemptions and exempt transactions, registration and sale of securities, and
8 registration of broker-dealers, agents, investment advisers, and investment adviser
9 representatives; and to repeal section 10-04-07 of the North Dakota Century Code, relating to
10 securities registration by description.

11 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

12 **SECTION 1. AMENDMENT.** Section 10-04-02 of the North Dakota Century Code is
13 amended and reenacted as follows:

14 **10-04-02. Definitions.** When used in this chapter, unless the context or subject matter
15 otherwise requires:

- 16 1. "Agent" means ~~any~~ an individual, other than a ~~dealer~~ broker-dealer, who
17 represents a ~~dealer~~ broker-dealer or an issuer or is self-employed in effecting or
18 attempting to effect purchases or sales of securities. ~~"Agent" does not include~~
19 However, a partner, officer, or director of a broker-dealer, or an individual who
20 ~~represents an issuer in effecting transactions in a covered security as described in~~
21 ~~section 18(b)(3) and 18(b)(4) of the Securities Act of 1933 or a dealer in effecting~~
22 ~~transactions in this state limited to those transactions described in section 15(h)(2)~~
23 ~~of the Securities Act of 1934~~ having a similar status or performing similar functions
24 is an agent only if the individual otherwise comes within the term.

- 1 2. "~~Commissioner~~ Bank" means ~~the securities commissioner of this state;~~
- 2 a. A bank institution organized under the laws of the United States;
- 3 b. A member bank of the federal reserve system;
- 4 c. Any other banking institution, whether or not incorporated, doing business
5 under the laws of a state or of the United States, a substantial portion of the
6 business of which consists of receiving deposits or exercising fiduciary
7 powers similar to those permitted to be exercised by national banks under the
8 authority of the comptroller of the currency pursuant to section 1 of Public
9 Law 87-722, and which is supervised and examined by a state or federal
10 agency having supervision over banks, and which is not operated for the
11 purpose of evading this chapter; and
- 12 d. A receiver, conservator, or other liquidating agent of any institution or firm
13 included in subdivision a, b, or c.
- 14 3. "~~Dealer~~ Broker-dealer" means a person, ~~other than an agent,~~ engaged in the
15 business of effecting transactions in securities issued by another person or by
16 such person for the account of others or for the person's own account. The term
17 does not include:
- 18 a. An agent; or
- 19 b. A bank or savings institution if its activities as a ~~dealer~~ broker-dealer are
20 limited to those specified in subsections 3(a)(4)(B)(i) through (vi), (viii) through
21 (x), and (xi) if limited to unsolicited transactions; 3(a)(5)(B) and 3(a)(5)(C) of
22 the Securities Exchange Act of 1934 or a bank that satisfies the conditions
23 described in subsection 3(a)(4)(E) of the Securities Exchange Act of 1934.
- 24 4. "Commissioner" means the securities commissioner of this state.
- 25 5. "Department" means the state securities department.
- 26 6. "Depository institution" means:
- 27 a. A bank; or
- 28 b. A savings institution, trust company, credit union, or similar institution that is
29 organized or chartered under the laws of a state or of the United States,
30 authorized to receive deposits, and supervised and examined by an official or
31 agency of a state or the United States if its deposits or share accounts are

1 insured to the maximum amount authorized by statute by the federal deposit
2 insurance corporation, the national credit union shares insurance fund, or a
3 successor authorized by federal law. The term does not include:

4 (1) An insurance company or other organization primarily engaged in the
5 business of insurance;

6 (2) A Morris plan bank; or

7 (3) An industrial loan company.

8 5- 7. "Federal covered adviser" means a person who is registered under section 203 of
9 the Investment Advisers Act of 1940.

10 6- 8. "Federal covered security" means ~~any~~ a security that is, or upon completion of a
11 transaction will be, a covered security pursuant to section 18(b) of the Securities
12 Act of 1933 or rules or regulations adopted under that Act.

13 9. "Institutional investor" means any of the following, whether acting for itself or for
14 others in a fiduciary capacity:

15 a. A depository institution or international banking institution;

16 b. An insurance company;

17 c. A separate account of an insurance company;

18 d. An investment company as defined in the Investment Company Act of 1940;

19 e. A broker-dealer under the Securities Exchange Act of 1934;

20 f. An employee pension, profit-sharing, or benefit plan if the plan has total
21 assets in excess of ten million dollars or its investment decisions are made by

22 a named fiduciary, as defined in the Employee Retirement Income Security
23 Act of 1974, that is a broker-dealer registered under the Securities Exchange

24 Act of 1934, an investment adviser registered or exempt from registration
25 under the Investment Advisers Act of 1940, an investment adviser registered

26 under this Act, a depository institution, or an insurance company;

27 g. A plan established and maintained by a state, a political subdivision of a
28 state, or an agency or instrumentality of a state or a political subdivision of a

29 state for the benefit of its employees, if the plan has total assets in excess of
30 ten million dollars or its investment decisions are made by a duly designated

31 public official or by a named fiduciary, as defined in the Employee Retirement

1 Income Security Act of 1974, that is a broker-dealer registered under the
2 Securities Exchange Act of 1934, an investment adviser registered or exempt
3 from registration under the Investment Advisers Act of 1940, an investment
4 adviser registered under this chapter, a depository institution, or an insurance
5 company;

6 h. A trust, if it has total assets in excess of ten million dollars, its trustee is a
7 depository institution, and its participants are exclusively plans of the types
8 identified in subdivision f or g, regardless of the size of their assets, except a
9 trust that includes as participants self-directed individual retirement accounts
10 or similar self-directed plans;

11 i. An organization described in section 501(c)(3) of the Internal Revenue Code,
12 corporation, Massachusetts trust or similar business trust, limited liability
13 company, or partnership, not formed for specific purpose of acquiring the
14 securities offered, with total assets in excess of ten million dollars;

15 j. A small business investment company licensed by the small business
16 administration under section 301(c) of the Small Business Investment Act of
17 1958 with total assets in excess of ten million dollars;

18 k. A private business development company as defined in section 202(a)(22) of
19 the Investment Advisers Act of 1940 with total assets in excess of ten million
20 dollars;

21 l. A federal covered investment adviser acting for its own account;

22 m. A qualified investment buyer as defined in rule 144A(a)(1), other than rule
23 144A(a)(1)(i)(H), adopted under the Securities Act of 1933;

24 n. A major United States institutional investor as defined in rule 15a-6(b)(4)(i)
25 adopted under the Securities Exchange Act of 1934; or

26 o. Any other person, other than an individual, of institutional character with total
27 assets in excess of ten million dollars not organized for the specific purpose
28 of evading this chapter.

29 ~~7.~~ 10. "Investment adviser" means any person who, for compensation, engages in the
30 business of advising others, either directly or through publications or writings, as to
31 the value of securities or as to the advisability of investing in, purchasing, or selling

1 securities, or who, for compensation and as a part of a regular business, issues or
2 promulgates analyses or reports concerning securities. "~~Investment adviser~~" also
3 The term includes financial planners and other persons who, as an integral
4 component of other financially related services, provide the foregoing investment
5 advisory services to others for compensation and as part of a business or who hold
6 themselves out as providing the foregoing investment advisory services to others
7 for compensation. "~~Investment adviser~~" The term does not include:

- 8 a. An investment adviser representative.
- 9 b. A bank, savings institution, or trust company.
- 10 c. A lawyer, accountant, engineer, or teacher whose performance of these
11 services is solely incidental to the practice of the person's profession.
- 12 d. A ~~broker or dealer~~ broker-dealer or its agent whose performance of these
13 services is solely incidental to the conduct of business as a ~~broker or dealer~~
14 broker-dealer and who receives no special compensation for them.
- 15 e. A publisher of any bona fide newspaper, news column, newsletter, news
16 magazine, or business or financial publication or service, whether
17 communicated in hard copy form, or by electronic means, or otherwise, that
18 does not consist of the rendering of advice on the basis of the specific
19 investment situation of each client.
- 20 f. A federal covered adviser.
- 21 g. A person who is ~~exempted~~ excluded by the Investment Advisers Act of 1940
22 ~~from the federal definition of "investment adviser" under section 202(a)(11) of~~
23 ~~the Investment Advisers Act of 1940.~~
- 24 h. Such other persons not within the intent of this subsection as the
25 commissioner may by rule or order designate.

26 ~~8-~~ 11. a. "Investment adviser representative" means:
27 a. ~~With respect to an investment adviser, any partner, officer, director of an~~
28 ~~investment adviser, or a person occupying a similar status or performing~~
29 ~~similar functions, or other~~ An individual who is either employed by or
30 associated with an investment adviser who is registered or required to be
31 registered under this chapter or federal covered adviser and who:

- 1 (1) Makes any recommendations or otherwise renders advice regarding
2 securities directly to advisory clients;
- 3 (2) Manages the accounts or portfolios of clients;
- 4 (3) Determines which recommendations or advice regarding securities
5 should be given;
- 6 (4) ~~Solicits, offers, or negotiates~~ Provides investment advice or holds out
7 as providing investment advice, receives compensation to solicit, offer,
8 or negotiate for the sale of or sells investment advisory services; or
- 9 (5) Immediately supervises employees in the performance of any of the
10 foregoing.
- 11 b. ~~With respect to a federal covered adviser, any person who is an "investment~~
12 ~~adviser representative"~~ The term does not include an individual who:
- 13 (1) Is employed by or associated with a federal covered investment
14 adviser, unless the individual has a "place of business" in this state, as
15 ~~those terms are~~ that term is defined by the securities and exchange
16 commission pursuant to section 203A of the Investment Advisers Act of
17 1940.
- 18 e. ~~"Investment adviser representative" does not include~~
- 19 (2) Is an agent whose performance of investment advice is solely
20 incidental to the individual acting as an agent and who does not receive
21 special compensation for investment advisory services.
- 22 (3) Performs only clerical or ministerial ~~personnel~~ acts.
- 23 9- 12. "Issuer" means every person who issues or proposes to issue any security, except
24 that:
- 25 a. With respect to certificates of deposit, voting-trust certificates, collateral trust
26 certificates, ~~certificates of interest,~~ or shares in an unincorporated investment
27 trust, ~~whether or not of the fixed, restricted management, or unit type,~~ issuer
28 means the person or persons performing the acts and assuming the duties of
29 depositor or manager pursuant to the provisions of the trust or other
30 agreement or instrument under which such securities are issued.

- 1 b. With respect to equipment trust certificates or like securities servicing the same
2 purpose, issuer means the person by whom the equipment or property is or is
3 ~~to~~ will be used or to which the property or equipment is or will be leased or
4 conditionally sold or that is otherwise contractually responsible for assuring
5 payment of the certificate.
- 6 c. With respect to fractional interests in an oil, gas, or other mineral ~~rights~~ lease
7 or in payments out of production under a lease, right, or royalty, issuer means
8 the owner of any such right or any interest in such ~~rights~~ lease or in payments
9 out of production under a lease, right, or royalty, whether whole or fractional,
10 ~~which are created~~ that creates fractional interests for the purpose of sale.
- 11 d. With respect to a fractional or pooled interest in a viatical settlement contract,
12 issuer means the person who creates, for the purpose of sale, the fractional
13 or pooled interest. The issuer of a viatical settlement contract that is not
14 fractionalized or pooled means the person effecting the transactions with the
15 investors in such contracts.
- 16 ~~40.~~ 13. "Offer for sale" or "offer to sell" means every attempt or offer to dispose of, or
17 solicitation of an order or offer to buy, a security or interest in a security for value.
18 ~~Every sale or offer for sale of a warrant or right to subscribe to another security of~~
19 ~~the same issuer or of another issuer, and every sale or offer for sale of a security~~
20 ~~which gives the holder thereof a present or future right or privilege to convert such~~
21 ~~security into another security of the same issuer or of another issuer, must be~~
22 ~~deemed an offer to sell the security to be acquired by subscription or conversion.~~
23 ~~The offer or grant of an option to purchase securities may not be deemed an offer~~
24 ~~to sell the securities to be purchased if:~~
- 25 a. ~~The offer or grant is an offer or grant limited to directors, officers, or~~
26 ~~employees of the issuer or a parent or subsidiary of the issuer;~~
- 27 b. ~~No money or other tangible property is given for the option; and~~
- 28 e. ~~The option, by its terms or by the terms of a supplemental agreement, is~~
29 ~~nontransferable except by will or the laws of descent and distribution.~~
- 30 ~~44.~~ 14. "Person" means an individual, a corporation, a limited liability company, a
31 partnership, an association, a ~~joint stock joint company~~ joint venture, a trust, a

- 1 government, governmental subdivision, agency, or instrumentality, or any other
2 unincorporated organization legal or commercial entity.
- 3 ~~12. "Registered agent" means an agent registered under this chapter.~~
- 4 ~~13. "Registered dealer" means a dealer registered under this chapter.~~
- 5 ~~14.~~ 15. "Place of business" of a broker-dealer, an investment adviser, or a federal covered
6 investment adviser means:
- 7 a. An office at which the broker-dealer, investment adviser, or federal covered
8 investment adviser regularly provides brokerage or investment advice or
9 solicits, meets with, or otherwise communicates with customers or clients; or
- 10 b. Any other location that is held out to the general public as a location at which
11 the broker-dealer, investment adviser, or federal covered investment adviser
12 provides brokerage or investment advice or solicits, meets with, or otherwise
13 communicates with customers or clients.
- 14 16. "Principal place of business" of a broker-dealer or an investment adviser means
15 the executive office of the broker-dealer or investment adviser from which the
16 officers, partners, or managers of the broker-dealer or investment adviser direct,
17 control, and coordinate the activities of the broker-dealer or investment adviser.
- 18 17. "Record" except in phrases "of record", "official record", and "public record" means
19 information that is inscribed on a tangible medium or that is stored in an electronic
20 or other medium and is retrievable in perceivable form.
- 21 18. "Sale" or "sell" means every sale, contract to sell, or other disposition of a security
22 or interest in a security for value, and every contract to make any such sale or
23 disposition. The term includes:
- 24 a. Any security given or delivered with, or as a bonus on account of any
25 purchase of securities or any other thing, must be conclusively presumed to
26 constitute a part of the subject of such purchase and to have been sold for
27 value.
- 28 b. A sale or offer of a warrant or right to purchase or subscribe to another
29 security of the same or another issuer and a sale or offer of a security that
30 gives the holder a present or future right or privilege to convert the security

1 into another security of the same or another issuer, including an offer of the
2 other security.

3 45. 19. "Security" means any note; stock; treasury stock; bond; debenture; evidence of
4 indebtedness; certificate of interest or participation in any profit-sharing agreement;
5 certificate of interest or participation in an oil, gas, or mining title or lease or in
6 payments out of production under such a title or lease; collateral trust certificate;
7 preorganization certificate or subscription; transferable share; investment contract;
8 viatical settlement contract or a fractionalized or pooled interest therein; program,
9 contract, or other arrangement in which persons invest in a common enterprise the
10 returns of which depend to any extent upon inducing other persons to participate
11 or invest in the enterprise; investment of money or money's worth including goods
12 furnished or services performed in the risk capital of a venture with the expectation
13 of profit or some other form of benefit to the investor when the investor has no
14 direct control over the investment or policy decisions of the venture; voting-trust
15 certificate; certificate of deposit for a security; foreign currency commodity contract,
16 as used in chapter 51-23; or beneficial interest in title to property, profits, or
17 earnings; or, in general, any interest or instrument commonly known as a
18 "security"; or any certificate of interest or participation in, temporary or interim
19 certificate for, receipt for, guarantee of, or warrant or right to subscribe to or
20 purchase, any of the foregoing.

21 46. 20. "State" means a state of the United States, the District of Columbia, Puerto Rico,
22 the United States Virgin Islands, or any territory or insular possession subject to
23 the jurisdiction of the United States.

24 21. "Viatical settlement contract" means an agreement for the purchase, sale,
25 assignment, transfer, devise, or bequest of any portion of the death benefit or
26 ownership of a life insurance policy or certificate, for consideration that is less than
27 the expected death benefit of the life insurance policy or certificate. "Viatical
28 settlement contract" does not include:

29 a. The assignment, transfer, sale, devise, or bequest of a death benefit, life
30 insurance policy, or certificate of insurance by the viator to the viatical
31 settlement provider pursuant to chapter 26.1-33.2;

- 1 b. The assignment of a life insurance policy to a bank, ~~savings bank, savings~~
2 ~~and loan association, credit union, or other licensed lending institution as~~
3 ~~collateral for a loan~~ or depository institution; or
4 c. The exercise of accelerated benefits pursuant to the terms of a life insurance
5 policy issued in accordance with the insurance laws of this state.

6 **SECTION 2. AMENDMENT.** Subsection 1 of section 10-04-03 of the North Dakota
7 Century Code is amended and reenacted as follows:

- 8 1. The state securities department is under the supervision of a chief officer
9 designated as the securities commissioner. The securities commissioner must be
10 appointed by the governor and confirmed by the senate and shall hold office for a
11 term of four years, beginning on the first day of July following a national
12 presidential election and continuing until a successor has been appointed,
13 confirmed by the senate, and has qualified, unless removed as herein provided. If
14 the senate is not in session, the governor may make an interim appointment, and
15 the interim appointee shall hold office until the senate confirms or rejects the
16 appointment. The commissioner must be skilled in securities and may not be an
17 incumbent of any other public office in the state. The commissioner may not own
18 or control any security required to be registered under this chapter ~~and, or any~~
19 security which is exempt based on the approval of the securities department. The
20 commissioner may not be an officer, director, or employee of any ~~dealer~~
21 broker-dealer, salesman agent, investment adviser, or investment adviser
22 representative required to be registered under this chapter, or of a federal covered
23 adviser required to be notice-filed under this chapter. The governor may remove
24 from office any commissioner who fails to discharge faithfully the duties of office or
25 who becomes disqualified under the provisions of this section.

26 It is the prime duty of the commissioner to administer the provisions of this
27 chapter. The commissioner shall receive a salary within the amount appropriated
28 for salaries by the legislative assembly. The commissioner shall use a seal with
29 the words "securities commissioner, North Dakota" and such design as the
30 commissioner may prescribe engraved thereon by which seal the commissioner
31 may authenticate documents used in the administration of this chapter. The

1 commissioner may employ such employees as are necessary for the
2 administration of this chapter. In the absence or disability of the commissioner, the
3 deputy or designee of the commissioner shall administer the provisions of this
4 chapter as acting commissioner.

5 **SECTION 3. AMENDMENT.** Section 10-04-05 of the North Dakota Century Code is
6 amended and reenacted as follows:

7 **10-04-05. Exempt securities.** Sections 10-04-04, ~~10-04-07~~, 10-04-07.1, 10-04-08,
8 and 10-04-08.4 do not apply to any of the following securities:

- 9 1. ~~Securities~~ A security, including a revenue obligation or a separate security as
10 defined in rule 131 adopted under the Securities Act of 1933, issued, insured, or
11 guaranteed by the United States of America, or by any a state, territory, or insular
12 possession thereof, or by any a political subdivision of any such a state, territory,
13 or insular possession, or by the District of Columbia, or by any a public authority,
14 agency, or instrumentality of one or more of any of the foregoing, or payable from
15 assessments for improvements or revenues of publicly owned utilities therein;
16 states, by a political subdivision of one or more states, or by a person controlled or
17 supervised by and acting as an instrumentality of the United States under authority
18 granted by the Congress, or a certificate of deposit for any of the foregoing, but
19 except that this exemption does not include any a municipal security with respect
20 to the offer or sale in this state if the security is payable solely from revenues to be
21 received from a nongovernmental industrial or commercial enterprise, unless the
22 security is insured such payments are made or unconditionally guaranteed by, or
23 the revenues are derived from, a person whose securities are exempt from
24 registration under this section or the issuer first files a notice in a record specifying
25 the terms of the proposed offer or sale and pays a nonrefundable filing fee of one
26 hundred dollars.
- 27 2. Securities issued by and representing or that will represent an interest in or a debt
28 direct obligation of, or be guaranteed by, a national bank or a national bank and
29 trust company or bank or credit or loan or savings association or savings and loan
30 association or credit union organized pursuant to an Act of Congress and
31 supervised by the United States, or any agency thereof, a banking institution

1 organized under the laws of the United States, a member bank of the federal
2 reserve system, or a depository institution a substantial portion of the business of
3 which consists or will consist of receiving deposits or share accounts that are
4 insured to the maximum amount authorized by statute by the federal deposit
5 insurance corporation, the national credit union share insurance fund, or a
6 successor authorized by federal law or exercising fiduciary powers that are similar
7 to those permitted for national banks under the authority of the comptroller of
8 currency pursuant to section 1 of Public Law 87-722 or issued or guaranteed as to
9 both principal and interest by an international bank of which the United States is a
10 member, ~~or issued by and representing an interest in or a debt of, or guaranteed~~
11 ~~by, a state bank, trust company, savings bank, savings institution, or credit union~~
12 ~~organized and supervised under the laws of any state, and securities of any~~
13 ~~person subject to examination by the commissioner of financial institutions of North~~
14 ~~Dakota.~~

15 3. Securities issued by a building and loan association subject to supervision by an
16 agency of the state of North Dakota, or policy contracts, including variable annuity
17 contracts, of an insurance company subject to supervision by an agency of the
18 state of North Dakota.

19 4. Securities issued or guaranteed ~~as to principal, interest, or dividends~~ by a
20 ~~corporation or limited liability company owning or operating a railroad or, other~~
21 common carrier, public service utility, if the corporation or limited liability company
22 is subject to regulation or supervision either as or public utility holding company
23 that is regulated in respect to its rates and charges or as to the issue of its
24 ~~securities by a public service commission, or by a board, body, or official having~~
25 ~~like powers, of by the United States or of any state, territory, or insular possession~~
26 ~~thereof, or of any municipality located therein, or of the District of Columbia, or of~~
27 ~~the Dominion of Canada, or any province thereof~~ a state, regulated in respect to
28 the issuance or guarantee of the security by the United States, a state, Canada, or
29 a Canadian province or territory, or a public utility holding company registered
30 under the Public Utility Holding Company Act of 1935 or a subsidiary of such a
31 registered holding company within the meaning of that Act.

- 1 5. Any security issued by any person organized and operated not for private profit but
2 exclusively for religious, educational, benevolent, fraternal, charitable, social, or
3 reformatory purposes; provided that prior to any offer of such security each person
4 must meet the following conditions:
- 5 a. Apply for and obtain the written approval of the commissioner.
6 b. File an application, offering disclosure document, and pay a nonrefundable
7 filing fee of one hundred fifty dollars, which document and fee must
8 accompany the application.
9 c. File a notice identifying the basis of its qualification under this exemption with
10 such additional information as the commissioner may require.
11 d. Provide a copy of the offering disclosure document to each person to whom
12 an offer to sell or sale is made.
- 13 The approval is effective for a period of one year from the date of approval. At
14 least thirty days prior to the expiration date, there must be filed an application,
15 offering disclosure document, and a nonrefundable fee of one hundred dollars for
16 the renewal of the filing for additional periods of one year.
- 17 6. Any note, draft, bill of exchange, or bankers' acceptance which arises out of a
18 current transaction or the proceeds of which have been or are to be used for
19 current transactions, is not the subject of a public offering, is prime quality
20 negotiable commercial paper which has at the time of issuance a definite maturity
21 of not exceeding nine months, is payable in cash only, and is not convertible into
22 and does not carry an option or right to receive payment or any bonus in any other
23 security.
- 24 7. Securities, other than common stock, providing for a fixed return, which have been
25 outstanding and in the hands of the public for not less than five years and upon
26 which no default has occurred during the five years next preceding the date of
27 sale.
- 28 8. Securities, including patronage dividends or refunds, issued by any cooperative
29 organized under the statutes of this state.
- 30 9. ~~Any An equipment security based on a chattel mortgage, lease, or agreement for~~
31 ~~the conditional sale of cars, motive power, or other rolling stock mortgaged, trust~~

1 ~~certificate with respect to equipment leased; or conditionally sold to, or furnished~~
2 ~~for the use of a railroad or other public service utility corporation or limited liability~~
3 ~~company, and any equipment security when the ownership of or title to such~~
4 ~~equipment is pledged or retained in accordance with the provisions of the laws of~~
5 ~~the United States or of any state thereof, or of the Dominion of Canada, to secure~~
6 ~~the payments of such equipment security whether it be an equipment trust~~
7 ~~certificate, bond, or note~~ a person, if any security issued by the person would be
8 exempt under this section or would be a federal covered security under section
9 18(b)(1) of the Securities Act of 1933.

10 10. Any bond, note, or other evidence of debt issued by a holding corporation or
11 limited liability company and secured by collateral consisting of any of the
12 securities described in subsections 4 and 9, if the collateral securities equal in fair
13 value at least one hundred twenty-five percent of the par value of the bonds, notes,
14 or other evidences of debts secured thereby.

15 11. The execution of orders for purchase of securities by a registered ~~dealer~~
16 broker-dealer provided such ~~dealer~~ broker-dealer acts as agent for the purchaser,
17 has made no solicitation of the order to purchase such securities, has no direct
18 material interest in the sale or distribution of the securities ordered, receives no
19 commission, profit, or other compensation other than the commissions involved in
20 the purchase and sale of the securities and delivery to the purchaser of written
21 confirmation of the order which clearly itemizes the commissions paid to the
22 registered ~~dealer~~ broker-dealer. Clear and complete records of all transactions
23 exempted under this subsection shall be maintained by the registered ~~dealer or~~
24 ~~broker~~ broker-dealer.

25 12. Any security issued by a venture capital corporation or limited liability company
26 organized under and operating in compliance with chapter 10-30.1; provided that
27 prior to any offer of such security, the issuer must meet each of the following
28 conditions:

29 a. Apply for and obtain written approval by the commissioner.

- 1 b. File an application, offering disclosure document, and pay a nonrefundable
2 filing fee of one hundred fifty dollars. The document and fee must accompany
3 the application.
- 4 c. File such additional information as the commissioner requires by rule or order
5 or may subsequently request.
- 6 d. Provide a copy of the offering disclosure document to each person to whom
7 an offer to sell or sale is made.
- 8 e. Not use public advertising matter or general solicitation, except tombstone
9 advertisements approved by the commissioner, in connection with any offer
10 or sale.
- 11 f. File a report of all offers and sales made in this state within thirty days after
12 the completion of the offering.

13 The approval is effective for a period of one year from the date of approval. There
14 must be filed, at least thirty days prior to the expiration date, an application,
15 disclosure document, and a nonrefundable fee of one hundred dollars for the
16 renewal of the filing for additional periods of one year.

- 17 13. Any security issued, insured, or guaranteed by ~~Canada, any Canadian province,~~
18 ~~any political subdivision of any such province, or any agency or corporate or other~~
19 ~~instrumentality of one or more of the foregoing, or any other~~ a foreign government
20 with which the United States currently maintains diplomatic relations, or any of its
21 political subdivisions, if the security is recognized as a valid obligation by the
22 issuer, insurer, or guarantor. ~~This exemption does not include any security~~
23 ~~payable solely from revenues to be received from a nongovernmental industrial or~~
24 ~~commercial enterprise.~~
- 25 14. a. ~~Any security, other than a security that is a~~ A federal covered security
26 pursuant to specified in section 18(b)(1) of the Securities Act of 1933 and
27 ~~therefore not subject to any filing or registration requirements under this~~
28 ~~chapter, or by rule adopted under that provision or a security listed or~~
29 ~~designated, or approved for listing or designation upon notice of issuance on:~~
30 (1) The New York stock exchange;
31 (2) The American stock exchange;

- 1 (3) The national association of securities dealers automated quotation
2 national market system;
- 3 (4) Tier I of the Philadelphia stock exchange, incorporated;
- 4 (5) Tier I of the Pacific ~~stock~~ exchange, incorporated;
- 5 (6) Chicago board options exchange, incorporated; or
- 6 (7) Any other stock exchange or automated quotation system which the
7 ~~commissioner~~ securities and exchange commission approves by rule;
- 8 b. ~~Any other security of the same issuer which is of senior or substantially equal~~
9 ~~rank;~~
- 10 e. ~~Any security called for by subscription rights or warrants so listed or~~
11 ~~approved; or~~
- 12 d. ~~Any warrant or right to purchase or subscribe to any of the foregoing. The~~
13 ~~commissioner may withdraw this exemption by order as to any exchange or~~
14 ~~system, or any particular security, if the commissioner determines that it~~
15 ~~would be in the public interest. A put or call option contract; a warrant; a~~
16 ~~subscription right on or with respect to such securities; or an option or similar~~
17 ~~derivative security on a security or an index of securities or foreign currencies~~
18 ~~issued by a clearing agency registered under the Securities Exchange Act of~~
19 ~~1934 and listed or designated for trading on a national securities exchange, a~~
20 ~~facility of a national securities exchange, or a facility of a national securities~~
21 ~~association registered under the Securities Exchange Act of 1934 or an offer~~
22 ~~or sale, of the underlying security in connection with the offer, sale, or~~
23 ~~exercise of an option or other security that was exempt when the option or~~
24 ~~other security was written or issued; or an option or a derivative security~~
25 ~~designated by the securities and exchange commission under section 9(b) of~~
26 ~~the Securities Exchange Act of 1934.~~
- 27 15. Securities issued by the North Dakota education association dues credit trust to
28 members of the North Dakota education association.
- 29 16. A security of a foreign issuer that is a margin security defined in regulations or
30 rules adopted by the board of governors of the federal reserve system.

1 **SECTION 4. AMENDMENT.** Section 10-04-06 of the North Dakota Century Code is
2 amended and reenacted as follows:

3 **10-04-06. Exempt transactions.** Except as hereinafter in this section expressly
4 provided, sections 10-04-04, ~~10-04-07~~, 10-04-07.1, 10-04-08, 10-04-08.4, and 10-04-10 do not
5 apply to any of the following transactions:

- 6 1. ~~Any judicial, executor's, administrator's, guardian's, or conservator's sale or any~~
7 ~~sale~~ A transaction by a an executor, administrator of an estate, sheriff, marshal,
8 receiver, guardian, conservator, or trustee in ~~insolvency or~~ bankruptcy.
- 9 2. The sale, in good faith and not for the purpose of avoiding the provisions of this
10 chapter, by a pledgee of securities pledged for a bona fide debt.
- 11 3. ~~Any~~ An isolated sale of any security made by or on behalf of a bona fide owner for
12 the owner's account, such owner not being an issuer, underwriter, ~~dealer~~
13 broker-dealer, or agent and such sale not being made in the course of repeated
14 and successive transactions of a like character. This subsection shall not exempt
15 any ~~dealer~~ broker-dealer or agent participating in an isolated sale from registering
16 in accordance with section 10-04-10, ~~nor shall this exemption be available in~~
17 ~~connection with any sale not made in good faith but rather for the purpose of~~
18 ~~evading the registration requirements imposed under chapter 10-04.~~
- 19 4. Securities dividends or other distributions by a corporation, cooperative, limited
20 partnership, limited liability limited partnership, or a limited liability company out of
21 its earnings or surplus, or the sale or distribution of additional capital stock of a
22 corporation or cooperative, interest of a partnership, or membership interest of a
23 limited liability company to or among its own stockholders, partners, or members,
24 including persons who at the time of the transaction are holders of nontransferable
25 warrants, or transferable warrants exercisable within not more than ninety days of
26 their issuance, when no commission or other remuneration is paid or given directly
27 or indirectly for soliciting or effecting such sale or distribution to stockholders or
28 members in this state.
- 29 5. Any offer or sale of securities to a bank, savings institution, trust company,
30 insurance company, investment company as defined in the Investment Company
31 Act of 1940, pension or profit-sharing trust, or similar benefit plan, or other financial

- 1 institution, or qualified institutional buyer, or to a ~~dealer~~ broker-dealer, or any
2 government or political subdivision or instrumentality thereof, whether the
3 purchaser is acting for itself or in a fiduciary capacity.
- 4 6. Any transaction incident to a vote by stockholders, partners, or members pursuant
5 to the articles of incorporation, bylaws, partnership agreement, articles of
6 organization, member-control agreement, or the applicable corporation,
7 partnership, or limited liability company statute on a merger, consolidation,
8 ~~reclassification~~ exchange of securities, or sale of corporate, partnership, or limited
9 liability company assets in consideration of the issuance of securities of another
10 corporation, partnership, or limited liability company, other reorganization to which
11 the issuer, or its parent or subsidiary and the other person or its parent or
12 subsidiary, are parties, or any transaction incident to a judicially approved
13 reorganization in which a security is issued in exchange for one or more
14 outstanding securities, claims, or property interests, or partly in such exchange and
15 partly for cash, or the solicitation of tenders of securities by an offeror in a tender
16 offer in compliance with rule 162 adopted under the Securities Act of 1933.
- 17 7. ~~The issuance and delivery of any securities in exchange for any other securities~~ A
18 transaction under an offer to existing security holders of the same issuer pursuant
19 to a right of conversion entitling the holder of the, including persons that at the date
20 of the transaction are holders of convertible securities surrendered to make such
21 conversion; provided, that the securities surrendered were not offered for sale or
22 sold in violation of section 10-04-04, options, or warrants, if a commission or other
23 remuneration, other than a standby commission, is not paid or given, directly or
24 indirectly, for soliciting a security holder in this state.
- 25 8. ~~The sale~~ A nonissuer transaction by or through a registered dealer broker-dealer
26 and agent, acting either as principal or agent, of securities theretofore sold and
27 distributed to the public, provided that both of which are registered or exempt from
28 registration under this chapter, or a resale transaction by a sponsor of a unit
29 investment trust registered under the Investment Company Act of 1940, in a
30 security of a class that has been outstanding in the hands of the public for at least
31 ninety days, if, at the date of the transaction:

- 1 a. The issuer of the security is engaged in business, the issuer is not in the
2 organizational stage or in bankruptcy or receivership, and the issuer is not a
3 blank check, blind pool, or shell company that has no specific business plan
4 or purpose or has indicated that its primary business plan is to engage in a
5 merger or combination of the business with, or an acquisition of, an
6 unidentified person;
- 7 b. Such securities are sold at prices reasonably related to the current market
8 price thereof at the time of sale and, if such registered dealer is acting as
9 agent, the commission collected by such registered dealer on account of the
10 sale thereof is not in excess of usual and customary commissions collected
11 with respect to securities and transactions having comparable
12 characteristics.;
- 13 ~~b. c.~~ Such securities do not constitute the whole or part of an unsold allotment to,
14 or subscription or participation by ~~such dealer, the broker-dealer~~ as a
15 participant in the distribution of such securities by the issuer, its officers, or
16 directors ~~or by or through~~ an underwriter of the security or a redistribution;
- 17 ~~e.~~ A balance sheet of the issuer as of a date within eighteen months prior to the
18 date of such sale and an income statement for either the fiscal year preceding
19 that date or the most recent year of operations are contained in a securities
20 manual.
- 21 d. Such securities are listed in Standard and Poor's, Mergent's industrial
22 manual, Mergent's bank and finance manual, Mergent's transportation
23 manual, Mergent's public utility manual, or ~~Fitch's individual stock bulletin~~
24 Fitch investor service, incorporated, or are filed under section 13 or 15(d) of
25 the ~~Federal~~ Securities and Exchange Act of 1934 [ch. 404, title I, sec. 1;
26 48 Stat. 881; 15 U.S.C. 78 et seq.];
- 27 e. Such securities are limited to issuers organized under the laws of any state,
28 territory, or insular possession of the United States.; and
- 29 ~~f.~~ ~~Provided, however, that even though the foregoing conditions might all be~~
30 ~~met, the exemption would not apply to the securities of open end~~
31 ~~management companies, mutual funds, unit investment trusts, contractual~~

1 ~~plans, and face amount certificate companies.~~ Any one of the following
2 requirements is met:

- 3 (1) The issuer of the security has a class of equity securities listed on a
4 national securities exchange registered under section 6 of the
5 Securities Exchange Act of 1934 or designated for trading on the
6 national association of securities dealers automated quotation system;
7 (2) The issuer of the security is a unit investment trust registered under the
8 Investment Company Act of 1940;
9 (3) The issuer of the security, including its predecessors, has been
10 engaged in continuous business for at least three years; or
11 (4) The issuer of the security has total assets of at least two million dollars
12 based on an audited balance sheet as of a date within eighteen months
13 before the date of the transaction or, in the case of a reorganization or
14 merger when the parties to the reorganization or merger each had the
15 audited balance sheet, a pro forma balance sheet for the combined
16 organization.

17 9. a. Any transaction pursuant to an offer directed by the offeror to not more than
18 thirty-five persons, other than those designated in subsection 5, in this state
19 during any period of twelve consecutive months, whether or not the offeror or
20 any of the offerees is then present in this state, if all of the following
21 conditions are met:

- 22 (1) The seller reasonably believes that all the buyers in this state, other
23 than those designated in subsection 5, are purchasing for investment.
24 (2) ~~No commission or other remuneration is paid or given directly or~~
25 ~~indirectly for soliciting any prospective buyer in this state, other than~~
26 ~~these~~ Except for offers or sales with respect to persons designated in
27 subsection 5, no security may be offered or sold under this subdivision
28 except to a dealer through or by a broker-dealer and agent registered
29 in this state in connection with the offer or sale of the security to a
30 resident of this state in accordance with section 10-04-10, unless it is
31 offered and sold through an officer, director, governor, or partner of the

1 issuer and no commission or other remuneration is paid, either directly
2 or indirectly.

3 (3) The offeror applies for and obtains the written approval of the
4 commissioner prior to making any offers in this state and pays a
5 nonrefundable filing fee of one hundred fifty dollars, which fee must
6 accompany the application for approval.

7 The commissioner may, as to any security or transaction or any type of
8 security or transaction, withdraw or further condition this exemption, or
9 increase or decrease the number of offerees permitted, or waive the condition
10 in paragraph 1.

11 b. Any offer or sale in this state of common stock, preferred stock, limited liability
12 company membership interests, or limited partnership interests of an issuer
13 during any period of twelve consecutive months if all of the following
14 conditions are met:

15 (1) The issuer reasonably believes that all the buyers in this state, other
16 than those designated in subsection 5, are purchasing for investment.

17 (2) ~~No commission or other remuneration is paid or given directly or~~
18 ~~indirectly for soliciting any prospective buyer in this state, other than~~
19 ~~those~~ Except with respect to offers and sales made to persons
20 designated in subsection 5, no security may be sold under this
21 subdivision ~~except reasonable and customary commissions paid~~
22 ~~through or by the issuer to a dealer~~ broker-dealer and agent registered
23 ~~in this state in connection with the offer or sale of the security to a~~
24 ~~resident of this state~~ accordance with section 10-04-10, unless it is
25 offered and sold through an officer, director, governor, or partner of the
26 issuer and no commission or other remuneration is paid, either directly
27 or indirectly.

28 (3) The issuer is both organized under the laws of this state and has its
29 principal place of business in this state.

- 1 (4) No public advertising matter or general solicitation, except tombstone
2 advertisements approved by the commissioner, is used in connection
3 with any offers or sales.
- 4 (5) An offering disclosure document in the form approved by the
5 commissioner must be delivered to each offeree prior to the sale of the
6 security.
- 7 (6) The gross proceeds of the offering may not exceed five million dollars.
- 8 (7) The issuer must apply for and obtain the written approval of the
9 commissioner prior to making any offer or sale in this state by filing an
10 application prescribed by the commissioner, a copy of the offering
11 disclosure document, and any other information or documents the
12 commissioner may require, together with a nonrefundable filing fee of
13 one hundred fifty dollars.
- 14 (8) All funds raised in the offering are placed in an escrow account until the
15 total offering amount has been sold.
- 16 The commissioner may withdraw or further condition this exemption or waive
17 the conditions in paragraphs 5 and 6.
- 18 c. The issuer must file a report of all offers and sales made in this state pursuant
19 to subdivision a or b on a form prescribed by the commissioner within thirty
20 days after the completion of the offering or expiration of the twelve-month
21 approval period, whichever occurs first.
- 22 d. The exemptions provided under subdivisions a and b may not be combined.
- 23 e. An exemption under this subsection is not available for the securities of any
24 issuer if the issuer or any promoter, officer, director, manager, partner, or
25 underwriter of the issuer:
- 26 (1) Has filed a registration statement that is the subject of a currently
27 effective registration stop order entered pursuant to any federal or state
28 securities law within five years prior to the filing of the application
29 required under this exemption.
- 30 (2) Has been convicted within five years prior to the filing of the application
31 required under this exemption of any felony or misdemeanor in

- 1 connection with the offer, purchase, or sale of any security or any
2 felony involving fraud or deceit, including forgery, embezzlement,
3 obtaining money under false pretenses, larceny, or conspiracy to
4 defraud.
- 5 (3) Is currently subject to any state administrative enforcement order or
6 judgment entered by any state securities administrator or the securities
7 and exchange commission within five years prior to the filing of the
8 application required under this exemption or is subject to any federal or
9 state administrative enforcement order or judgment in which fraud or
10 deceit, including making untrue statements of material facts, was found
11 and the order of judgment was entered within five years prior to the
12 filing of the application required under this exemption.
- 13 (4) Is subject to any federal or state administrative enforcement order or
14 judgment which prohibits, denies, or revokes the use of any exemption
15 from registration in connection with the offer, purchase, or sale of
16 securities.
- 17 (5) Is currently subject to any order, judgment, or decree of any court of
18 competent jurisdiction temporarily or preliminarily restraining or
19 enjoining, or is subject to any order, judgment, or decree of any court of
20 competent jurisdiction, permanently restraining or enjoining, such part
21 from engaging in or continuing any conduct or practice in connection
22 with the purchase or sale of a security or involving the making of any
23 false filing with any state or with the securities and exchange
24 commission entered within five years prior to the filing of the application
25 required under this exemption.
- 26 (6) Has been or is the subject of any order issued by the United States
27 postal service that was entered within five years prior to reliance on this
28 exemption and alleged any fraudulent or unlawful conduct.
- 29 f. Subdivision e does not apply if the commissioner determines, upon a showing
30 of good cause, that it is not necessary under the circumstances that the
31 exemption should not be denied.

- 1 10. The sale of capital stock of a corporation or membership interests of a limited
2 liability company if the corporation or limited liability company is organized under
3 the statutes of this state or the sale of memberships, including dues, in a nonprofit
4 corporation incorporated in North Dakota if the corporation or limited liability
5 company is organized and operated for the primary purpose of promoting
6 community development.
- 7 11. Any security issued in connection with an employee's stock purchase, savings,
8 ~~pension option, profit-sharing, a self-employed person's retirement plan pension,~~
9 or similar employees' benefit plan, including any securities, plan interests, and
10 guarantees issued under a compensatory benefit plan or compensation contract,
11 contained in a record, established by the issuer, its parents, its majority-owned
12 subsidiaries, or the majority-owned subsidiaries of the issuer's parent for the
13 participation of their employees.
- 14 12. The sale of a security issued by the United States, or the state of North Dakota, or
15 any political subdivision or instrumentality of the state of North Dakota; provided,
16 that the offer for sale and sale are made by an official or employee of the issuer or
17 of the Bank of North Dakota acting in an official capacity and not for personal
18 pecuniary profit, or by a bank or similar financial association or institution or an
19 official or employee thereof solely as an accommodation to customers of such
20 association or institution and without asking or receiving a commission or
21 remuneration other than an accommodation fee not to exceed one hundred dollars
22 in connection with the transaction.
- 23 13. Any offer or sale of shares of capital stock issued by a professional corporation or
24 professional limited liability company which is organized and operated pursuant to
25 chapter 10-31.
- 26 14. The offer or sale of a security issued by the North Dakota education association
27 dues credit trust to members of the North Dakota education association.
- 28 15. a. An offer, but not a sale, of a security made by or on behalf of an issuer for the
29 sole purpose of soliciting an indication of interest in receiving a prospectus or
30 similar disclosure document for the security if all of the following conditions
31 are satisfied:

- 1 (1) The issuer is or will be a business entity organized under the laws of
2 one of the states or possessions of the United States or one of the
3 provinces or territories of Canada; is engaged in or proposes to engage
4 in a business other than petroleum exploration or production, mining, or
5 other extractive industries; and is not a blind pool offering or other
6 offering for which the specific business or properties cannot now be
7 described.
- 8 (2) The issuer may solicit indications of interest in a project or business
9 only within a period of twelve months after receiving approval from the
10 commissioner and does not pay a commission or fee to any person for
11 soliciting a potential investor or prospective purchaser in this state
12 unless the person who receives the commission or fee is registered as
13 a ~~dealer~~ broker-dealer or agent in this state.
- 14 (3) The issuer intends to register securities in this state, rely upon
15 subsection 8 of section 10-04-05 for the issuance of a security, or
16 receive approval for an exemption under subsection 5 of section
17 10-04-05 or subsection 9 of this section.
- 18 (4) The issuer files a solicitation of interest form and copies of any
19 advertising or marketing materials, including scripts for use in
20 telephone, television, electronic, or computer publications, for approval
21 by the commissioner at least ten business days before the issuer
22 begins soliciting indications of interest from potential purchasers and at
23 least ten business days before publishing or distributing any materials
24 or information to any person.
- 25 (5) The issuer obtains approval of the commissioner for any amendments
26 or changes in filed forms, marketing materials, or advertisements at
27 least ten business days before distributing the amended marketing
28 materials or amended advertising information to any person.
- 29 (6) The issuer does not use any solicitation of interest form, script,
30 advertisement, or other material which the issuer has been notified by
31 the commissioner not to distribute, to solicit indications of interest.

1 (b) Has been convicted of any felony or misdemeanor involving the
2 offer, purchase, or sale of a security, franchise, commodity, or
3 financial transaction, or any felony or misdemeanor involving
4 fraud, deceit, forgery, embezzlement, conspiracy to defraud, or a
5 similar financial crime.

6 The prohibitions listed above shall not apply if the person subject to the
7 disqualification is duly licensed or registered to conduct
8 securities-related business in the state in which the administrative order
9 or judgment was entered against such person or if the ~~dealer~~
10 broker-dealer employing such party is licensed or registered in this
11 state and the form B-D filed with this state discloses the order,
12 conviction, judgment, or decree relating to such person. A person
13 disqualified under this subsection may not act in a capacity other than
14 that for which the person is licensed or registered. Any disqualification
15 caused by this section is automatically waived if the agency, which
16 created the basis for disqualification, determines upon a showing of
17 good cause that it is not necessary under the circumstances that the
18 exemption be denied.

19 b. The issuer shall comply with the requirements set forth below. Failure to
20 comply will not result in the loss of the exemption from the requirements of
21 section 10-04-04, but is a violation of this chapter, is actionable by the
22 commissioner under section 10-04-16, and constitutes grounds for denying or
23 revoking the exemption as to a specific security or transaction.

24 (1) Any published notice must contain at least the identity of the chief
25 executive officer of the issuer, a brief and general description of its
26 business and products, and the following legends:

27 (a) NO MONEY OR OTHER CONSIDERATION IS BEING
28 SOLICITED AND NONE WILL BE ACCEPTED;

29 (b) NO SALES OF THE SECURITIES WILL BE MADE OR
30 COMMITMENT TO PURCHASE ACCEPTED UNTIL DELIVERY
31 OF A PROSPECTUS OR SIMILAR DISCLOSURE DOCUMENT

- 1 THAT INCLUDES COMPLETE INFORMATION ABOUT THE
2 ISSUER AND THE OFFERING;
- 3 (c) AN INDICATION OF INTEREST MADE BY A PROSPECTIVE
4 INVESTOR INVOLVES NO OBLIGATION OR COMMITMENT
5 OF ANY KIND; and
- 6 (d) THIS OFFER IS BEING MADE PURSUANT TO AN
7 EXEMPTION FROM REGISTRATION UNDER THE FEDERAL
8 AND STATE SECURITIES LAWS. NO SALE MAY BE MADE
9 UNTIL THE OFFERING STATEMENT IS QUALIFIED BY THE
10 SECURITIES AND EXCHANGE COMMISSION AND IS
11 REGISTERED OR APPROVED IN THIS STATE.
- 12 (2) Any script for broadcast must contain at least the identity of the chief
13 executive of the issuer, a brief description of its business and products,
14 its address and telephone number, and the following legends:
- 15 (a) THIS IS FOR AN INDICATION OF INTEREST ONLY AND
16 INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND
17 UPON A PROSPECTIVE INVESTOR;
- 18 (b) NO MONEY OR OTHER CONSIDERATION IS BEING
19 SOLICITED; and
- 20 (c) THIS OFFER IS MADE PURSUANT TO AN EXEMPTION FROM
21 REGISTRATION UNDER FEDERAL AND STATE SECURITIES
22 LAWS.
- 23 c. Offers made on reliance of this exemption will not result in a violation of
24 section 10-04-04 by virtue of being integrated with subsequent offers or sales
25 of securities unless such subsequent offers and sales would be integrated
26 under federal securities laws.
- 27 16. An offer or sale of common stock, limited liability company membership interests,
28 or limited partnership interests by a person to a person or other subscribers, not
29 exceeding ten in number, for the sole purpose of organization in this state, if the
30 securities are not acquired for the purpose of resale to others for a period of twelve
31 months, advertising has not been published or circulated in connection with the

- 1 offer or sale, and all sales are consummated within ten days after the date of
2 organization.
- 3 17. Any offer or sale of a security by an issuer in a transaction provided all of the
4 following conditions are met:
- 5 a. Sales of securities may be made only to persons who are, or the issuer
6 reasonably believes are, accredited investors as defined in 17 CFR
7 230.501(a) promulgated by the securities and exchange commission.
- 8 b. The exemption is not available to an issuer that is in the development stage
9 that either has no specific business plan or purpose or has indicated that its
10 business plan is to engage in a merger or acquisition with an unidentified
11 company or companies, or other entity or person.
- 12 c. The issuer reasonably believes that all purchasers are purchasing for
13 investment and not with the view to, or for, sale in connection with a
14 distribution of the security. Any resale of a security sold in reliance of this
15 exemption within twelve months of sale must be presumed to be with a view
16 to distribution and not for investment, except a resale pursuant to a
17 registration statement effective under section 10-04-04 or to an accredited
18 investor pursuant to an exemption available under subsection 5.
- 19 d. (1) The exemption is not available to an issuer if the issuer, any of the
20 issuer's predecessors, any affiliated issuer, any of the issuer's
21 directors, officers, general partners, beneficial owners of ten percent or
22 more of any class of its equity securities, any of the issuer's promoters
23 presently connected with the issuer in any capacity, any underwriter of
24 the securities to be offered, or any partner, director, or officer of such
25 underwriter:
- 26 (a) Within the last five years, has filed a registration statement that is
27 the subject of a currently effective registration stop order entered
28 by any state securities administrator or the securities and
29 exchange commission;

- 1 (b) Within the last five years, has been convicted of any criminal
2 offense in connection with the offer, purchase, or sale of any
3 security, or involving fraud or deceit;
- 4 (c) Is currently subject to any state or federal administrative
5 enforcement order or judgment, entered within the last five years,
6 finding fraud or deceit in connection with the purchase or sale of
7 any security; or
- 8 (d) Is currently subject to any order, judgment, or decree of any court
9 of competent jurisdiction, entered within the last five years,
10 temporarily, preliminarily, or permanently restraining or enjoining
11 such party from engaging in or continuing to engage in any
12 conduct or practice involving fraud or deceit in connection with
13 the purchase or sale of any security.
- 14 (2) Paragraph 1 does not apply if:
- 15 (a) The party subject to the disqualification is licensed or registered
16 to conduct securities-related business in the state in which the
17 order, judgment, or decree creating the disqualification was
18 entered against such party;
- 19 (b) Before the first offer under this exemption, the state securities
20 administrator, or the court or regulatory authority that entered the
21 order, judgment, or decree, waives the disqualification; or
- 22 (c) The issuer establishes that it did not know and in the exercise of
23 reasonable care, based on a factual inquiry, could not have
24 known that a disqualification existed under this subdivision.
- 25 e. (1) A general announcement of the proposed offering may be made by any
26 means.
- 27 (2) The general announcement must include only the following information,
28 unless additional information is specifically permitted by the
29 commissioner:
- 30 (a) The name, address, and telephone number of the issuer of the
31 securities;

- 1 (b) The name, a brief description, and price, if known, of any security
2 to be issued;
- 3 (c) A brief description of the business of the issuer in twenty-five
4 words or less;
- 5 (d) The type, number, and aggregate amount of securities being
6 offered;
- 7 (e) The name, address, and telephone number of the person to
8 contact for additional information; and
- 9 (f) A statement that:
- 10 [1] Sales will only be made to accredited investors;
- 11 [2] No money or other consideration is being solicited or will
12 be accepted by way of this general announcement; and
- 13 [3] The securities have not been registered with or approved
14 by any state securities agency or the securities and
15 exchange commission and are being offered and sold
16 pursuant to an exemption from registration.
- 17 f. The issuer, in connection with an offer, may provide information in addition to
18 the general announcement under subdivision e, if such information:
- 19 (1) Is delivered through an electronic data base that is restricted to persons
20 who have been prequalified as accredited investors; or
- 21 (2) Is delivered after the issuer reasonably believes that the prospective
22 purchaser is an accredited investor.
- 23 g. Telephone solicitation is not permitted unless prior to placing the call, the
24 issuer reasonably believes that the prospective purchaser to be solicited is an
25 accredited investor.
- 26 h. Dissemination of the general announcement of the proposed offering to
27 persons who are not accredited investors does not disqualify the issuer from
28 claiming the exemption.
- 29 i. The issuer shall file with the department a notice of transaction, a consent to
30 service of process, a copy of the general announcement, and a

- 1 nonrefundable filing fee of one hundred dollars within fifteen days after the
2 first sale in this state.
- 3 18. The offer or sale of a security issued by an organization organized under and
4 operated in compliance with chapter 10-06.1.
- 5 19. Any offer or sale of an agricultural-related cooperative security by or on behalf of
6 an agricultural producer, as defined by section 32-44-01, to a person for the
7 purpose of producing and selling agricultural products, as defined by section
8 32-44-01, to the cooperative. Commissions or other remuneration may not be paid
9 or given directly or indirectly for soliciting any prospective buyer in this state,
10 except to a ~~dealer~~ broker-dealer or agent registered in this state, to an agent of a
11 bank or a commercial trust department, to a licensed real estate agent, or to a
12 licensed auctioneer if the sale is made at a bona fide public auction.
- 13 20. A transaction in a note, bond, debenture, or other evidence of indebtedness
14 secured by a mortgage or other security agreement if:
- 15 a. The note, bond, debenture, or other evidence of indebtedness is offered and
16 sold with the mortgage or other security agreement as a unit;
- 17 b. A general solicitation or general advertisement of the transaction is not made;
18 and
- 19 c. A commission or other remuneration is not paid or given, directly or indirectly,
20 to a person not registered under this Act as a broker-dealer or as an agent.
- 21 21. A nonissuer transaction by a federal covered investment adviser with investments
22 under management in excess of one hundred million dollars acting in the exercise
23 of discretionary authority in a signed record for the account of others.

24 **SECTION 5. AMENDMENT.** Subsection 2 of section 10-04-07.1 of the North Dakota
25 Century Code is amended and reenacted as follows:

- 26 2. Securities entitled to registration by announcement may be registered only by a
27 ~~dealer~~ broker-dealer registered with the department as provided for in section
28 10-04-10 by filing with the department a written announcement of intention to trade
29 in the securities containing the following:
- 30 a. Name of issuer and location of the headquarters or principal office.
- 31 b. A brief description of the security, including price and current earnings.

- 1 c. A statement that the securities have been outstanding and in the hands of the
2 public not less than one year as aforesaid.
3 d. A balance sheet not more than twelve months old.
4 e. A statement that the security has been registered in North Dakota or by the
5 securities and exchange commission.

6 **SECTION 6. AMENDMENT.** Subsection 3 of section 10-04-07.1 of the North Dakota
7 Century Code is amended and reenacted as follows:

- 8 3. The filing of such announcement with the department constitutes the registration of
9 the security, unless advised to the contrary within forty-eight hours or advised to
10 furnish additional information, and such ~~dealer~~ broker-dealer shall pay to the
11 commissioner a filing fee of twenty-five dollars. Upon registration, such securities
12 may be sold in this state for a period of one year from date of registration by
13 registered ~~dealers~~ broker-dealers at a price or prices reasonably related to the
14 current market price of such security at the time of sale, subject, however, to any
15 and all rights and authority granted the commissioner and to any person or
16 purchaser under chapter 10-04, in respect of securities registered by the
17 commissioner by description or qualification. No security registered under this
18 section shall be sold directly or indirectly for the benefit of the issuer, or an
19 underwriter of such securities, or for the promotion of any scheme or enterprise
20 with the intent of violating or evading any provision of this chapter; provided, that
21 no security, the registration of which has been revoked by the commissioner, or
22 application for registration of which has been denied by the commissioner, or
23 withdrawn by the applicant, shall be registered under this section.

24 **SECTION 7. AMENDMENT.** Section 10-04-08 of the North Dakota Century Code is
25 amended and reenacted as follows:

- 26 **10-04-08. Registration by qualification.** Securities required to be registered by
27 qualification under this chapter before they may be sold in this state must be registered as
28 provided in this section. Application for registration of securities by qualification must be made
29 by the issuer of the securities or by a registered ~~dealer~~ broker-dealer by filing with the
30 department:

- 1 1. An application for registration, which must be made in writing or on forms
2 prescribed by the commissioner, must contain the following information and be
3 accompanied by the following documents:
- 4 a. With respect to the applicant or issuer and any significant subsidiary: its
5 name, address, and form of organization; the state of foreign jurisdiction and
6 date of its organization; the general character and location of its business; a
7 general description of its physical properties and equipment; and a statement
8 of the general competitive conditions in the industry or business in which it is
9 or will be engaged.
- 10 b. With respect to every director and officer of the issuer, or person occupying a
11 similar status or performing similar functions: the person's name, address,
12 and principal occupation for the past five years; the amount of securities of
13 the issuer held by the person as of a specified date within thirty days of the
14 filing of the application for registration; the amount of the securities covered
15 by the application for registration to which the person has indicated an
16 intention to subscribe; and a description of any material interest in any
17 transaction with the issuer or any subsidiary effected within the past three
18 years or proposed to be effected.
- 19 c. With respect to persons covered by subdivision b: the remuneration paid
20 during the past twelve months and estimated to be paid during the next
21 twelve months, directly or indirectly, by the issuer to all those persons in the
22 aggregate.
- 23 d. With respect to any person owning of record, or beneficially if known, ten
24 percent or more of the outstanding shares of any class of equity security of
25 the issuer: the information specified in subdivision b other than the person's
26 occupation.
- 27 e. With respect to every promoter if the issuer was organized within the past
28 three years: the information specified in subdivision b, any amount paid to
29 the promoter within that period or intended to be paid to the promoter, and the
30 consideration for any such payment.

- 1 f. With respect to any person on whose behalf any part of the offering is to be
2 made in a nonissuer distribution: the person's name and address; the amount
3 of securities of the issuer held by the person as of the date of the filing of the
4 application for registration; a description of any material interest in any
5 transaction with the issuer or any subsidiary effected within the past three
6 years or proposed to be effected; and a statement of the person's reasons for
7 making the offering.
- 8 g. The title, kind, classes, and amount of securities to be offered in this state; the
9 proposed offering price to the public or the method by which it is to be
10 computed; any variation therefrom at which any proportion of the offering is to
11 be made to any person or class of persons other than the underwriters, with a
12 specification of any such person or class; the basis upon which the offering is
13 to be made if otherwise than for cash; the maximum amount of commission or
14 other form of remuneration to be paid in cash or otherwise, directly or
15 indirectly, for or in connection with the sale or offering for sale of such
16 securities; the estimated aggregate underwriting and selling discounts or
17 commissions and finders' fees, including separately cash, securities,
18 contracts, or anything else of value to accrue to the underwriters or finders in
19 connection with the offering, or, if the selling discounts or commissions are
20 variable, the basis of determining them and their maximum and minimum
21 amounts; the estimated amounts of other selling expenses, including legal,
22 engineering, and accounting charges and a statement as to what person,
23 corporation, or limited liability company shall be responsible for payment of
24 the same; the name and address of every underwriter and every recipient of a
25 finder's fee; a copy of any underwriting or selling-group agreement pursuant
26 to which the distribution is to be made, or the proposed form of any such
27 agreement whose terms have not yet been determined; and a description of
28 the plan of distribution of any securities which are to be offered otherwise
29 than through an underwriter.
- 30 h. The estimated cash proceeds to be received by the issuer from the offering;
31 the purposes for which the proceeds are to be used by the issuer; the amount

- 1 to be used for each purpose; the amounts of any funds to be raised from
2 other sources to achieve the purposes stated; the sources of any such funds;
3 and, if any part of the proceeds is to be used to acquire any property,
4 including goodwill, otherwise than in the ordinary course of business, the
5 names and addresses of the vendors, the purchase price, the names of any
6 persons who have received commissions in connection with the acquisition,
7 and the amounts of any such commissions and any other expense in
8 connection with the acquisition.
- 9 i. A description of each and every stock option or other security option
10 outstanding, or to be created in connection with the offering, including the
11 price at which such options may be exercised together with the amount of any
12 such options held or to be held by every person.
- 13 j. The capitalization and long-term debt of the issuer and any subsidiary,
14 including a description of each security outstanding or being registered or
15 otherwise offered, and a statement of the amount and kind of consideration
16 for which the issuer or any subsidiary has issued any of its securities within
17 the past two years or is obligated to issue any of its securities.
- 18 k. The dates of, parties to, and general effect concisely stated of, every
19 management or other material contract made or to be made otherwise than in
20 the ordinary course of business if it is to be performed in whole or in part at or
21 after the filing of the application for registration or was made within the past
22 two years, together with a copy of every such contract; and a description of
23 any pending litigation or proceeding to which the issuer is a party and which
24 affects its business or assets.
- 25 l. A detailed statement showing the items of cash, property, services, patents,
26 goodwill, and any other consideration for which any securities of the issuer
27 have been within two years or are to be issued in payment.
- 28 m. A copy of any prospectus, pamphlet, circular, form letter, advertisement, or
29 other sales literature intended as of the effective date to be used in
30 connection with the offering.

- 1 n. A specimen or copy of the security being registered; a copy of the issuer's
2 articles of incorporation and bylaws, as currently in effect; and a copy of any
3 indenture or other instrument covering the security to be registered.
- 4 o. A balance sheet of the issuer as of a date within four months prior to the filing
5 of the application for registration; a profit and loss statement and analysis of
6 surplus for each of the three fiscal years preceding the date of the balance
7 sheet and for any period between the close of the last fiscal year and the date
8 of the balance sheet, or for the period of the issuer's and any predecessor's
9 existence if less than three years; and, if any part of the proceeds of the
10 offering is to be applied to the purchase of any business, the same financial
11 statements which would be required if the business were the registrant.
- 12 p. Other states in which it is proposed to offer the securities for sale to the
13 public; other states in which the securities are eligible for sale to the public;
14 states which have refused, by order or otherwise, to render the securities
15 eligible for sale to the public or have revoked or suspended the right to sell
16 the securities, or in which an application for registration has been withdrawn;
17 and, if application has been made to register the securities under the federal
18 Securities Act of 1933, the date upon which the application to register the
19 securities was first filed, and a statement as to whether registration under that
20 Act is effective, and if so, the effective date.
- 21 q. Such additional information as the commissioner requires by rule or order or
22 may subsequently request.
- 23 2. Payment of a filing fee for each security or class of security to be registered as
24 follows:
- 25 a. One-tenth of one percent of the first seven hundred fifty thousand dollars of
26 the aggregate offering price of each security or class of security to be
27 registered.
- 28 b. One-twentieth of one percent of any amount in excess of seven hundred fifty
29 thousand dollars of the aggregate offering price of each security or class of
30 security to be registered.

- 1 c. In no event may such filing fee be less than one hundred dollars for each
2 security or class of security to be registered.
- 3 d. Provided, further, that any applicant may increase the aggregate amount of
4 securities under this subdivision before the expiration of one year from the
5 date of the certificate of effectiveness at the same reduced fee, which must
6 be computed as provided in subdivisions a and b as a separate fee for each
7 additional amount registered, as if the additional securities had been included
8 in the other registration of that year, registration year and not calendar year.
- 9 e. For the renewal of the registration of securities for additional periods of one
10 year, there must be paid a renewal fee of one hundred dollars.
- 11 3. If the applicant is not domiciled in this state and is not a corporation or limited
12 liability company organized or authorized to transact business under the laws of
13 this state, a consent to service of process conforming to the requirements of
14 section 10-04-14.
- 15 4. The commissioner may by rule or order require as a part of the application for
16 registration under this section that a prospectus containing any designated part of
17 the information specified in subsection 1 be submitted to the commissioner and the
18 same prospectus must be sent or given to each person to whom a sale or an offer
19 to sell is made. The commissioner may by rule or otherwise permit the omission of
20 any item of information or document from any application for registration. In all
21 cases in which an application is filed to register securities and a registration
22 statement covering the same securities has been filed with the federal securities
23 and exchange commission, a copy of the registration statement so filed must be
24 accepted by the commissioner in lieu of the information specified in subdivisions a
25 through q of subsection 1, except that it must be accompanied by a statement of
26 the amount of such securities to be offered in this state. All of the statements,
27 exhibits, or documents of every kind required under this section must be certified
28 by the applicant or the issuer or any person having knowledge of the facts. An
29 applicant may, with the consent of the commissioner, amend or withdraw an
30 application and any or all statements, exhibits, or documents filed therewith under
31 this section at any time prior to the registration or prior to any offering and sale of

1 the securities sought to be registered or the entry of an order denying the
2 registration of such securities, but in no event may the fee be returned.

3 Registration under this section is effective for a period of one year.

4 **SECTION 8. AMENDMENT.** Section 10-04-08.3 of the North Dakota Century Code is
5 amended and reenacted as follows:

6 **10-04-08.3. Unlawful representations concerning registration or exemption.**

- 7 1. Neither the fact that an application for approval under section 10-04-05 or
8 10-04-06 or registration under section ~~10-04-07~~, 10-04-07.1, 10-04-08, or 10-04-10
9 or a notice filing under section 10-04-08.4 has been filed nor the fact that a security
10 or person is effectively approved or registered constitutes a finding by the
11 commissioner that any document filed under this chapter is true, complete, and not
12 misleading. Neither any such fact nor the fact that an exemption or exception is
13 available for a security or a transaction means that the commissioner has passed
14 in any way upon the merits or qualifications of, or recommended or given approval
15 to, any security, transaction, or person.
- 16 2. It is unlawful to make, or cause to be made, to any prospective purchaser,
17 customer, or client any representation inconsistent with subsection 1.

18 **SECTION 9. AMENDMENT.** Subsection 2 of section 10-04-08.4 of the North Dakota
19 Century Code is amended and reenacted as follows:

- 20 2. Any federal covered security that is subject to section 18(b)(4)(D) of the Securities
21 Act of 1933, as amended, may be offered and sold ~~upon a filing of~~ under the
22 following conditions:
- 23 a. A notice of intent is filed in writing on SEC form D or other prescribed form
24 with a consent to service of process and a nonrefundable filing fee of one
25 hundred dollars within fifteen calendar days after the first sale in this state.
- 26 b. A copy of any document filed with the securities and exchange commission is
27 provided, as the commissioner may require.
- 28 c. The notice filing is effective for a period of one year from the date the filing is
29 received by the commissioner.
- 30 d. The filing fee shall be two hundred fifty dollars in the event the filing is not
31 made within the time period specified in subdivision a.

1 ~~For any~~ No security may be offered or sold under this subsection, no commission
2 ~~or other remuneration may be paid, either directly or indirectly, for soliciting any~~
3 ~~prospective buyer in this state, except to~~ through or by a dealer broker-dealer and
4 agent registered in accordance with section 10-04-10, unless it is offered and sold
5 through an officer, director, governor, or partner of the issuer and no commission
6 or other remuneration is paid, either directly or indirectly.

7 **SECTION 10. AMENDMENT.** Section 10-04-09 of the North Dakota Century Code is
8 amended and reenacted as follows:

9 **10-04-09. Suspension or revocation of registration of securities.** The
10 commissioner may revoke the registration of any securities registered under this chapter if,
11 after a hearing or opportunity for hearing as provided in section 10-04-12, the commissioner
12 finds that any provisions of this chapter or any rule, order, or condition lawfully imposed under
13 this chapter has been violated, or if the commissioner finds any of the following:

- 14 1. The sale of such securities would work or tend to work a fraud, or deception upon
15 the purchasers thereof or the public, or that the disposal of the securities is on
16 unfair terms, or if the plan of business of the applicant appears to be unfair, unjust,
17 or inequitable.
- 18 2. The issuer of such securities is insolvent, or has violated any of the provisions of
19 this chapter or any order of the commissioner of which such issuer has notice, or
20 does not conduct its business in accord with law.
- 21 3. The issuer of such securities has made any fraudulent representations in any
22 prospectus or in any circular or other literature that has been distributed
23 concerning the issuer or its securities.
- 24 4. The issuer of such securities has refused to permit an examination into its affairs
25 as provided in this section or has failed to furnish the commissioner any further
26 information required pursuant to this section.
- 27 5. ~~Securities registered by description were not entitled to registration by description.~~
- 28 6- No action may be brought under this section by the commissioner after ten years
29 from the date of the alleged violation.

30 If the commissioner has reasonable grounds to believe that the registration of any
31 securities registered under this chapter should be revoked upon any ground specified in this

1 section, the commissioner or the commissioner's agent may conduct an examination into the
2 affairs of the issuer of such securities; provided, that the commissioner or the commissioner's
3 agent may conduct such an examination only if the information sought by such examination
4 could not be obtained from other readily available sources. In making any such examination,
5 the commissioner or the commissioner's agent shall have access to and may compel the
6 production of all the books and papers of an issuer and may administer oaths to and examine
7 the officers and any employees of such issuer as to its business and affairs. They may also
8 require a balance sheet exhibiting the assets and liabilities of any such issuer or the issuer's
9 income statement, or both, to be certified to by a certified public accountant. Whenever the
10 commissioner may deem it necessary in connection with any such examination, the
11 commissioner may also require such balance sheet or income statement, or both, to be made
12 more specific in such particulars as the commissioner shall point out or to be brought down to
13 the latest practicable date. Such examination shall be made at the office of the commissioner,
14 unless the issuer or a registered dealer requests that the examination be made at some other
15 place, in which case the person making such request may be required by the commissioner to
16 advance sufficient funds to pay the actual expenses of such investigation.

17 If the commissioner has reasonable grounds to believe that the registration of any
18 securities under this chapter should be revoked on any ground specified in this section, the
19 commissioner may enter an order suspending the registration of such securities pending an
20 examination into the affairs of the issuer of such securities or pending a hearing or opportunity
21 for hearing as provided in section 10-04-12; provided, that no such suspension order shall be
22 effective for more than thirty days and such an order, if not withdrawn by the commissioner
23 within thirty days, shall automatically terminate thirty days after the date of its issuance. Such
24 suspension order shall state specifically the grounds for its issuance. Upon the entry of an
25 order suspending the registration of any securities or of an order withdrawing a suspension
26 order previously issued, the commissioner shall send a copy of such order to the issuer of such
27 securities.

28 If the commissioner finds, after a hearing or opportunity for hearing as provided in
29 section 10-04-12, that there are grounds for revoking the registration of certain securities, the
30 commissioner may enter in the register of securities an order revoking the registration of such
31 securities. Such order shall state specifically the grounds for its issuance. Upon the entry of an

1 order revoking the registration of securities, the commissioner shall send a copy of such order
2 to the issuer of such securities. No order revoking the registration of securities shall invalidate
3 any sale of such securities made prior to the entry of such order.

4 **SECTION 11. AMENDMENT.** Section 10-04-10 of the North Dakota Century Code is
5 amended and reenacted as follows:

6 **10-04-10. Registration of ~~dealers~~ broker-dealers, agents, investment advisers,**
7 **and investment adviser representatives - Notice filings by federal covered advisers.** A
8 ~~dealer or agent may not offer for sale or sell any securities within or from this state, except in~~
9 ~~transactions exempt under section 10-04-06, unless registered as a dealer or agent pursuant to~~
10 ~~the provisions of this section.~~

11 1. ~~Dealers.~~ Broker-dealers. It is unlawful for a person to transact business in this
12 state as a broker-dealer unless the person is registered under this Act as a
13 broker-dealer or is exempt. The following persons are exempt from the registration
14 requirements:

15 a. A broker-dealer without a place of business in this state if its only transactions
16 effected in this state are with:

- 17 (1) The issuer of the securities involved in the transactions;
18 (2) A broker-dealer registered as a broker-dealer under this Act or not
19 required to be registered as a broker-dealer under this Act;
20 (3) An institutional investor;
21 (4) A nonaffiliated federal covered investment adviser with investments
22 under management in excess of one hundred million dollars acting for
23 the account of others pursuant to discretionary authority in a signed
24 record;
25 (5) A bona fide preexisting customer whose principal place of residence is
26 not in this state and the person is registered as a broker-dealer under
27 the Securities Exchange Act of 1934 or not required to be registered
28 under the Securities Exchange Act of 1934 and is registered under the
29 securities laws of the state in which the customer maintains a principal
30 place of residence; and

- 1 (6) A bona fide preexisting customer whose principal place of residence is
2 in this state but was not present in this state when the customer
3 relationship was established, if:
- 4 (a) The broker-dealer is registered under the Securities Exchange
5 Act of 1934 or not required to be registered under the Securities
6 Exchange Act of 1934 and is registered under the securities laws
7 of the state in which the customer relationship was established
8 and where the customer had maintained a principal place of
9 residence; and
- 10 (b) Within thirty days after the customer's first transaction in this
11 state, the person files an application for registration as a
12 broker-dealer in this state and a further transaction is not effected
13 more than forty-five days after the date on which the application
14 is filed, or, if earlier, the date on which the commissioner notifies
15 the person that the commissioner has denied the application for
16 registration or has stayed the pendency of the application for
17 good cause.
- 18 b. A person that deals solely in United States government securities and is
19 supervised as a broker-dealer in government securities by the board of
20 governors of the federal reserve system, the comptroller of the currency, the
21 federal deposit insurance corporation, or the office of thrift supervision.
- 22 Application for registration as a ~~dealer may be made by any person eighteen~~
23 ~~years of age or older. Such application for registration~~ broker-dealer must be
24 made in writing or electronically in a form prescribed by the commissioner, must be
25 signed by the applicant, duly verified by oath, must be filed with the department,
26 and must contain information the commissioner determines to be necessary
27 concerning the applicant.
- 28 The commissioner may also require such additional information relating to the
29 applicant and as to the previous history, record, or association of the applicant, its
30 officers, directors, employees, members, partners, managers, or trustees as the

1 commissioner deems necessary to establish whether or not the applicant should
2 be registered as a ~~dealer~~ broker-dealer under the provisions of this law.

3 There must be filed with such application a written consent to the service of
4 process upon the commissioner in actions against such ~~dealer~~ broker-dealer,
5 conforming to the requirements of section 10-04-14.

6 When an applicant has fully complied with the provisions of this subsection,
7 the commissioner may register such applicant as a ~~dealer~~ broker-dealer unless the
8 commissioner finds that the applicant is not of good business reputation, or is not
9 solvent, or the applicant's principals and compliance or sales supervisor do not
10 appear qualified by training, examination, or experience to act on behalf of a
11 ~~dealer~~ broker-dealer in securities.

12 Except as prohibited by the Securities Exchange Act of 1934, the
13 commissioner may require an indemnity bond running to the state of North Dakota
14 conditioned for the faithful compliance by the ~~dealer~~ broker-dealer and the ~~dealer's~~
15 broker-dealer's agents with all the provisions of this law and for the faithful
16 performance and payment of all obligations of the ~~dealer~~ broker-dealer and the
17 ~~dealer's~~ broker-dealer's agents.

18 The bond must be of such type as may be approved by the commissioner and
19 must be in such amount as the commissioner deems necessary to protect
20 purchasers. Any such bond must have as surety thereon a surety company
21 authorized to do business in this state. When the commissioner has registered an
22 applicant as a ~~dealer~~ broker-dealer, the commissioner shall notify the applicant of
23 such registration.

24 2. Agent. It is unlawful for an individual to transact business in this state as an agent
25 unless the individual is registered under this Act as an agent or is exempt from
26 registration. The following individuals are exempt from the registration
27 requirements:

28 a. An individual who represents a broker-dealer in effecting transactions in this
29 state limited to those in section 15(h)(2) of the Securities Exchange Act of
30 1934;

- 1 b. An individual who represents a broker-dealer that is exempt under
2 subsection 1 of this section;
- 3 c. An individual who represents an issuer that effects transactions solely in
4 federal covered securities of the issuer, but an individual who effects
5 transactions in a federal covered security under section 18(b)(3) or
6 18(b)(4)(D) of the Securities Act of 1933 is not exempt if the individual is
7 compensated in connection with the agent's participation by the payment of
8 commissions or other remuneration based, directly or indirectly, on
9 transactions in those securities; or
- 10 d. An individual who represents a broker-dealer registered in this state or
11 exempt from registration in the offer and sale of securities for an account of a
12 nonaffiliated federal covered investment adviser with investments under
13 management in excess of one hundred million dollars acting for the account
14 of others pursuant to discretionary authority in a signed record.

15 Application for registration as an agent ~~may be made by any individual~~
16 ~~eighteen years of age or older. Such application for registration~~ must be made in
17 writing or electronically in a form prescribed by the commissioner, must be signed
18 by the applicant and by the registered ~~dealer~~ broker-dealer or issuer employing or
19 proposing to employ such applicant, duly verified by oath, must be filed with the
20 department, and must contain information the commissioner determines to be
21 necessary concerning the applicant.

22 The commissioner shall require as a condition of registration that the
23 applicant pass a written examination as evidence of knowledge of the securities
24 business; provided, that not more than two officers or managers of an issuer may
25 be registered as an agent for a particular original offering of the issuer's securities
26 without being required to pass such written examination; and provided, further, that
27 no such officer or manager may again register within three years as such agent for
28 this or any other issuer without passing the written examination.

29 The commissioner may also require such additional information as to the
30 applicant's previous business experience as the commissioner deems necessary
31 to determine whether or not the applicant should be registered as an agent under

1 the provisions of this law. If an agent proposes to be self-employed, the agent
2 shall specifically state the particular security or securities the agent proposes to
3 sell in this state in the application, and if said security or securities are exempt
4 under section 10-04-05 or 10-04-06, ~~or have been registered by description under~~
5 ~~section 10-04-07~~, or have been registered by announcement under section
6 10-04-07.1, or have been registered by qualification under section 10-04-08, then
7 the commissioner may require that said self-employed agent file an indemnity
8 bond running to the state of North Dakota conditioned for the faithful compliance
9 by said self-employed agent with all the applicable provisions of this chapter and
10 for the faithful performance and payment of all obligations hereunder. The bond
11 must be in a form approved and in the amount required by the commissioner.

12 When an applicant has fully complied with the provisions of this subsection,
13 the commissioner may register such applicant as an agent unless the
14 commissioner finds that such applicant is not of good business reputation, or that
15 the ~~dealer~~ broker-dealer named on the application is not a registered ~~dealer~~
16 broker-dealer. When the commissioner has registered an applicant as an agent,
17 the commissioner shall immediately notify the ~~broker~~ broker-dealer of such
18 registration.

19 Every registered ~~dealer~~ broker-dealer or issuer shall promptly notify the
20 department of the termination of the employment by the ~~dealer~~ broker-dealer or
21 issuer of a registered agent.

22 3. Investment advisers.

23 a. It is unlawful for any person to transact business in this state as an
24 investment adviser unless the person is registered under this Act as an
25 investment adviser or is exempt from registration as an investment adviser.

26 The following persons are exempt from the registration requirements:

- 27 (1) ~~The~~ A person without a place of business in this state that is registered
28 under this chapter; under the securities laws of the state in which the
29 person has its principal place of business if its only clients in this state
30 are:

- 1 (a) Federal covered investment advisers, investment advisers
2 registered under this Act, or broker-dealers registered under this
3 Act;
4 (b) Institutional investors; or
5 (c) Bona fide preexisting clients whose principal places of residence
6 are not in this state if the investment adviser is registered under
7 the securities laws of the state in which the clients maintain
8 principal places of residences.
- 9 (2) ~~The person's only clients in this state are investment companies as~~
10 ~~defined in the Investment Company Act of 1940, other investment~~
11 ~~advisers, federal covered advisers, dealers, banks, trust companies,~~
12 ~~savings and loan associations, insurance companies, employee benefit~~
13 ~~plans with assets of not less than one million dollars, and governmental~~
14 ~~agencies or instrumentalities, whether acting for themselves or as~~
15 ~~trustees with investment control, or other institutional investors as are~~
16 ~~designated by rule or order of the commissioner; or~~
- 17 (3) ~~Such person is registered either under the laws of the state where its~~
18 ~~principal place of business is located or with the securities and~~
19 ~~exchange commission, if the investment adviser has no A person~~
20 ~~without a place of business in this state and if the person has had,~~
21 ~~during the preceding ~~twelve-month period~~ has had twelve months not~~
22 ~~more than ~~six~~ five clients, ~~other than~~ resident in this state in addition to~~
23 ~~those specified in ~~paragraph 2,~~ who are residents of this state~~
24 ~~paragraph 1.~~
- 25 b. Application for registration as an investment adviser ~~may be made by any~~
26 ~~person eighteen years of age or older. Such application for registration must~~
27 ~~be made in writing or electronically in a form prescribed by the commissioner,~~
28 ~~must be signed by the applicant, duly verified by oath, must be filed with the~~
29 ~~department, and must contain information the commissioner determines to be~~
30 ~~necessary concerning the applicant.~~

1 The commissioner may also require such additional information relating to the
2 applicant and as to the previous history, record, or association of the applicant, its
3 officers, directors, employees, members, partners, managers, or trustees, as the
4 commissioner deems necessary to establish whether or not the applicant should
5 be registered as an investment adviser under the provisions of this chapter.

6 Except as prohibited by the Investment Advisers Act of 1940, the
7 commissioner may require an indemnity bond running to the state of North Dakota
8 conditioned for the faithful compliance by the investment adviser and the
9 investment adviser's representatives with all the provisions of this law and for the
10 faithful performance and payment of all obligations of the investment adviser and
11 the investment adviser's representatives. The bond must be of such type as may
12 be approved by the commissioner and must be in such amount as the
13 commissioner deems necessary to protect persons in this state. Any such bond
14 must have as surety thereon a surety company authorized to do business in this
15 state.

16 The commissioner may by rule or order provide for an examination to be
17 taken by any class of or all applicants, as well as persons who represent or will
18 represent an investment adviser in doing any of the acts which make the person
19 an investment adviser.

20 When an applicant has fully complied with the provisions of this subsection,
21 the commissioner may register such applicant as an investment adviser unless the
22 commissioner finds that the applicant is not of good business reputation or is not
23 solvent.

24 A registrant as investment adviser shall notify the department of any change
25 of address.

26 4. Federal covered adviser.

27 a. Except with respect to a federal covered investment adviser ~~whose clients are~~
28 ~~those described in paragraph 2 of subdivision a of subsection 3 or who meets~~
29 ~~the criteria of paragraph 3 of subdivision a of subsection 3~~ described in
30 subdivision b, it shall be unlawful for a person to transact business in this
31 state as a federal covered adviser unless such person has made a notice

1 filing with the department, in writing or electronically, consisting of a copy of
2 those documents that have been filed with the securities and exchange
3 commission as the commissioner may require by rule or otherwise and the
4 prescribed notice filing fee.

5 b. The following federal covered investment advisers are not required to comply
6 with the notice filing requirement:

7 (1) A federal covered investment adviser without a place of business in this
8 state if its only clients are:

9 (a) Federal covered investment advisers, investment advisers
10 registered under this Act, and broker-dealers registered under
11 this Act;

12 (b) Institutional investors; or

13 (c) Bona fide preexisting clients whose principal places of residence
14 are not in this state.

15 (2) A federal covered investment adviser without a place of business in this
16 state if the person has had, during the preceding twelve months, not
17 more than five clients that are resident in this state in addition to those
18 specified under paragraph 1.

19 A notice filing is effective from receipt until the following December thirty-first.
20 It may be renewed by filing with the department, prior to expiration, those
21 documents filed with the securities and exchange commission as the
22 commissioner may require by rule or otherwise, with the notice filing renewal fee.

23 If the information contained in any document filed with the department is or
24 becomes inaccurate or incomplete in any material respect, the federal covered
25 adviser shall file an amendment with the department whenever such amendment is
26 filed with the securities and exchange commission.

27 A notice filing may be terminated by a federal covered adviser by filing a
28 notice of termination with the department.

29 5. Investment adviser representatives. It is unlawful for an individual to transact
30 business in this state as an investment adviser representative unless the individual
31 is registered under this Act as an investment adviser representative or is exempt

1 from registration as an investment adviser representative or that the investment
2 adviser representative is employed by or associated with an investment adviser
3 that is exempt from registration or a federal covered investment adviser that is
4 excluded from the notice filing requirements.

5 Application for registration as an investment adviser representative ~~may be~~
6 ~~made by any person eighteen years of age or older. The application for~~
7 ~~registration~~ must be submitted in writing or electronically in a form prescribed by
8 the commissioner, be signed by the applicant and if applicable, by the investment
9 adviser employing or proposing to employ the applicant, be duly verified by oath,
10 be filed with the department, and contain information the commissioner determines
11 to be necessary concerning the applicant.

12 When an applicant has fully complied with the provisions of this subsection,
13 the commissioner may register the applicant as an investment adviser
14 representative unless the commissioner finds that the applicant is not of good
15 business reputation; that the investment adviser named in the application is not a
16 registered investment adviser; or the federal covered adviser named in the
17 application has not made a notice filing with the commissioner, as required by
18 subsection 4. When the commissioner has registered an applicant as an
19 investment adviser representative, the commissioner shall immediately notify the
20 investment adviser or the federal covered adviser, as applicable, of such
21 registration.

22 Every registered investment adviser shall promptly notify the department of
23 the termination of the employment by the adviser of a registered investment
24 adviser representative. Every registered investment adviser representative
25 employed by a federal covered adviser or the federal covered adviser shall
26 promptly notify the department of the termination of such employment. The
27 registration of the investment adviser representative is automatically suspended
28 from the time of termination of employment until such time as the representative is
29 registered by the commissioner as a representative of another investment adviser
30 or federal covered adviser.

1 The commissioner shall require as a condition of registration that the
2 applicant pass a written examination as evidence of knowledge of the securities
3 business. At the discretion of the commissioner, certain professional designations
4 may be accepted in lieu of an examination.

5 6. Refusal of registration. If the commissioner has reason to believe there are
6 grounds to refuse the approval of any application under this section, the
7 commissioner may, by order, summarily postpone the approval of any application
8 made under this section. If, after affording an applicant a hearing or an opportunity
9 for a hearing as provided in section 10-04-12, the commissioner finds that there is
10 sufficient ground to refuse to register such applicant as provided in this section, the
11 commissioner shall enter an order refusing to register such applicant. Such order
12 shall state specifically the grounds for its issuance. A copy of such order must be
13 mailed to the applicant at the applicant's business address, and if the application is
14 for registration as an agent, to the registered ~~dealer~~ broker-dealer or issuer or if
15 the application is for registration as an investment adviser representative to the
16 investment adviser or federal covered adviser who proposed to employ such
17 applicant. If the commissioner finds that an applicant has been guilty of any act or
18 omission which would constitute a sufficient ground for revocation of a ~~dealer's~~
19 broker-dealer's, agent's, investment adviser's, or investment adviser
20 representative's registration under section 10-04-11, such act or omission may
21 constitute a sufficient ground for a finding by the commissioner that such applicant
22 is not of good business reputation.

23 7. Record and renewal of registrations. The names and addresses of all persons
24 who have been registered as ~~dealers~~ broker-dealers, agents, investment advisers,
25 or investment adviser representatives, and all orders with respect thereto, and the
26 names and addresses of all federal covered advisers who have made a notice
27 filing must be recorded in a register of ~~dealers~~ broker-dealers, agents, investment
28 advisers, federal covered advisers, and investment adviser representatives in the
29 office of the commissioner. Every registration and notice filing under this section
30 expires on December thirty-first of each year, unless renewed. The commissioner
31 may by order provide for expirations and renewals, including dates, forms, and

1 procedures, adjust registration and notice filing fees to correspond with expiration
2 dates, and do any other thing which may be necessary or convenient in order to
3 participate in a central registration depository or any similar arrangement designed
4 to promote uniformity, to ease regulatory burdens, or to encourage cooperation
5 with other states, the securities and exchange commission, or any registered
6 national securities association or exchange.

7 8. Fees. The fee, which must accompany the application, for registration, transfer, or
8 notice filing, and for each annual renewal thereof is:

- | | |
|--|----------|
| 9 a. For each dealer <u>broker-dealer</u> | \$200.00 |
| 10 b. For each agent | \$60.00 |
| 11 c. For each investment adviser or federal covered adviser | \$100.00 |
| 12 d. For each investment adviser representative | \$50.00 |

13 An application to register as a ~~dealer~~ broker-dealer, agent, investment adviser, or investment
14 adviser representative may, with the consent of the commissioner, be withdrawn upon written
15 application, but in no event may any registration fees be returned.

16 **SECTION 12. AMENDMENT.** Subsection 1 of section 10-04-10.3 of the North Dakota
17 Century Code is amended and reenacted as follows:

18 1. Every ~~registered dealer~~ broker-dealer, agent, investment adviser, and investment
19 adviser representative conducting business in this state shall make and keep such
20 accounts, correspondence, memoranda, papers, books, and other records as ~~the~~
21 ~~commissioner prescribes by rule 6-~~ described below:

22 a. With the exclusion of a broker-dealer whose activities are limited to the sale of
23 securities that it issues and who is not a member or required to be a member
24 of any self-regulatory organization, every broker-dealer registered in or
25 conducting business in this state, and each branch office located in or
26 conducting business in this state, must keep and maintain all records as
27 required by:

28 (1) Federal statutes or by rules or regulations promulgated by the
29 securities and exchange commission.

30 (2) Rules promulgated by any securities exchange or self-regulatory
31 organization of which the broker-dealer is a member.

- 1 (3) The laws, rules, or regulations of any state in which the broker-dealer is
2 registered or maintains a place of business from which it conducts
3 securities business in North Dakota.
- 4 b. Every investment adviser which maintains its principal place of business in
5 any state, other than this state, and is registered as an investment adviser in
6 the state in which it maintains its principal place of business, shall keep and
7 maintain such books and records as required by the state in which it
8 maintains its principal place of business.
- 9 c. Every investment adviser which maintains its principal place of business in
10 this state, or is not registered or exempt from registration in the state in which
11 it maintains its principal place of business, shall keep and maintain the
12 following books and records for a period of three years:
- 13 (1) Financial documents of the investment adviser which shall include:
- 14 (a) Journals and ledgers tracking income and expenses of the
15 investment adviser. These documents must be continually
16 maintained to within thirty days of current.
- 17 (b) Trial balances, financial statements, and internal audit papers.
- 18 (c) Checkbooks and statements on any type of account on which the
19 investment adviser has check-writing privileges.
- 20 (d) Statements regarding any account of the investment adviser with
21 any insurance company, broker-dealer, investment adviser,
22 federal covered adviser, or financial institution.
- 23 (2) A file which contains copies of all incoming and outgoing
24 correspondence between the investment adviser or its representative
25 and any of its customers, prospective customers, or former customers.
- 26 (3) A file containing a copy of each customer complaint against the
27 investment adviser or a representative of the investment adviser.
- 28 (4) A file containing all advertisements used by the investment adviser or a
29 representative of the investment adviser. To the extent that past
30 performance of the investment adviser is used in advertising materials,
31 the investment adviser shall maintain all accounts, records, and internal

- 1 working papers that form the basis of the performance of the
2 investment adviser
- 3 (5) Copies of all contracts between the investment adviser and its
4 customers.
- 5 (6) A manual regarding the supervisory procedures of the investment
6 adviser, unless the investment adviser is wholly owned by the only
7 representative of the investment adviser and the investment adviser
8 has no employees.
- 9 (7) With respect to discretionary accounts:
- 10 (a) A list of all discretionary accounts.
- 11 (b) A file containing all discretionary trading agreements.
- 12 (c) A list of all trades that were conducted on a discretionary basis.
- 13 (8) All records created by the investment adviser or provided by a client or
14 prospective client of an investment adviser regarding the financial
15 condition of the client or prospective client.
- 16 (9) Records tracking all securities purchased by or advice provided by the
17 investment adviser and the payment for the services if any. These
18 records shall disclose whether the investment adviser or the investment
19 adviser representative had any direct or indirect beneficial interest in
20 the investment involved.
- 21 (10) An updated copy of part II of the form ADV and a summary of all
22 material updates to the same.
- 23 (11) A list of all parties to whom referral fees have been paid and the
24 amount of money paid to each such person.
- 25 (12) A list containing the date of receipt and date of transmission of each
26 customer check provided to the investment adviser for the purpose of
27 deposit with the custodian of the investment adviser. Copies of each of
28 the checks must be maintained with the list.

29 All records ~~so~~ required to be maintained pursuant to subdivision a or b, must
30 be preserved for three years unless the commissioner prescribes otherwise as set
31 forth in the rules or regulations of the jurisdiction originating the recordkeeping

1 requirement. The commissioner may by rule for particular types of records
2 enhance or waive the requirements of this subsection.

3 It is a violation of this subsection for any person who is registered, required to
4 be registered, or is affiliated with or employed by any such entity, to create or
5 cause to be created any record discussed in this subsection, if such record
6 contains a material misstatement or misrepresentation regarding a customer or a
7 customer's investments and the person knew or should have known of the falsity of
8 the information or acted in reckless disregard of the truthfulness of the information.

9 **SECTION 13. AMENDMENT.** Subsection 2 of section 10-04-10.3 of the North Dakota
10 Century Code is amended and reenacted as follows:

11 2. Every registered ~~dealer~~ broker-dealer, agent, investment adviser, and investment
12 adviser representative shall file such financial reports as the commissioner
13 prescribes by rule.

14 **SECTION 14. AMENDMENT.** Section 10-04-11 of the North Dakota Century Code is
15 amended and reenacted as follows:

16 **10-04-11. Suspension or revocation of ~~dealer's~~ broker-dealer's, agent's,**
17 **investment adviser's, and investment adviser representative's registration.**

18 1. The commissioner may censure, place limitations on the activities of, suspend for
19 a period not exceeding twelve months, or revoke the registration of any ~~dealer~~
20 broker-dealer, agent, investment adviser, or investment adviser representative or
21 any partner, officer, or director, any person occupying a similar status or
22 performing similar functions, or any person directly or indirectly controlling the
23 ~~dealer~~ broker-dealer or investment adviser if, after a hearing or opportunity for
24 hearing as provided in section 10-04-12, the commissioner finds that such
25 registered ~~dealer~~ broker-dealer, agent, investment adviser, or investment adviser
26 representative:

- 27 a. Has violated or failed to comply with any provisions of this chapter or any
28 order or rule of the commissioner under this chapter;
- 29 b. Is, in the case of a ~~dealer~~ broker-dealer or investment adviser, insolvent;
- 30 c. Has engaged in dishonest, fraudulent, or unethical practices in the securities
31 business;

- 1 d. Conducts business in purchasing or selling securities at such variations from
2 current market prices as, in light of all the circumstances, are unconscionable
3 or unfair to the purchasing public, or if such variance, including commissions
4 on sales, unreasonably exceeds the price quoted by a recognized national
5 quotation list as prescribed by the commissioner;
- 6 e. Has failed to file with the department any financial record required pursuant to
7 section 10-04-10.3, or has refused to permit or has otherwise impeded an
8 examination into the person's affairs as provided by section 10-04-10.3 and
9 subsection 3;
- 10 f. Has filed an application for registration which, as of its effective date or as of
11 any date after filing in the case of an order denying effectiveness, was
12 incomplete in any material respect or contained any statement which was, in
13 light of the circumstances under which it was made, false or misleading with
14 respect to any material fact;
- 15 g. Has been convicted of an offense determined by the commissioner to have a
16 direct bearing upon a person's ability to serve the public as a ~~dealer~~
17 broker-dealer, agent, investment adviser, or investment adviser
18 representative, or the commissioner finds that a person, following conviction
19 of any offense, is not sufficiently rehabilitated under section 12.1-33-02.1;
- 20 h. Is permanently or temporarily enjoined by any court of competent jurisdiction
21 from engaging in or continuing any conduct or practice involving any aspect of
22 the securities business;
- 23 i. Is the subject of an order of the commissioner denying, suspending, or
24 revoking registration as a ~~dealer~~ broker-dealer, agent, investment adviser, or
25 investment adviser representative;
- 26 j. Is the subject of an order entered by the securities administrator of any other
27 state or by the securities and exchange commission denying or revoking
28 registration as a ~~dealer~~ broker-dealer, agent, investment adviser, or
29 investment adviser representative, or the substantial equivalent of those
30 terms as defined in this chapter, or is the subject of an order suspending or
31 expelling membership in or association with a member of a self-regulatory

- 1 organization registered under the Securities Exchange Act of 1934, the
2 Commodity Exchange Act, or the Investment Advisers Act of 1940; or is the
3 subject of a United States post-office fraud order;
- 4 k. Has, in connection with the offer, sale, or purchase of any security, directly or
5 indirectly, effected a series of transactions creating actual or apparent active
6 trading in any security, or to raise or depress the price of a security, for the
7 purpose of inducing the purchase or sale of the security;
- 8 l. Is not qualified on the basis of such factors as training, experience, and
9 knowledge of the securities business;
- 10 m. Has failed reasonably to supervise the person's agents if the person is a
11 ~~dealer~~ broker-dealer or the person's employees or investment adviser
12 representatives if the person is an investment adviser; or
- 13 n. Is the subject of an order entered by the insurance administrator of any state
14 denying or revoking registration as an insurance producer, consultant, or the
15 substantial equivalent of those terms as defined in section 26.1-26-02.
- 16 It is a violation for any person to engage in any conduct described in subdivisions
17 a, c, d, e, f, and k and any administrative rules promulgated under any of those
18 subdivisions, if the activities occurred in this state, or with respect to a resident of
19 this state, or has caused or could have caused harm to investors in this state.
- 20 2. It is sufficient cause for revocation of registration of a ~~dealer~~ broker-dealer or
21 investment adviser as provided in this section, in case of a partnership,
22 corporation, limited liability company, or any unincorporated association, if any
23 member of a partnership or any officer or director of the corporation or association
24 or any manager or governor of a limited liability company has been guilty of any
25 act or omission which would be sufficient grounds for revoking the registration of
26 an individual ~~dealer~~ broker-dealer or investment adviser.
- 27 3. If the commissioner has reasonable grounds to believe that the registration of any
28 registered ~~dealer~~ broker-dealer, agent, investment adviser, or investment adviser
29 representative should be censured, suspended, or revoked upon any grounds
30 specified in this section, the commissioner or the commissioner's agent may
31 conduct an examination into the affairs of any such registered ~~dealer~~

1 broker-dealer, agent, investment adviser, or investment adviser representative. In
2 making any such examination, the commissioner or the commissioner's agent shall
3 have access to and may compel the production of all the books and papers of a
4 registered ~~dealer~~ broker-dealer, agent, investment adviser, or investment adviser
5 representative, and may administer oaths to and examine the officers and
6 employees of such ~~dealer~~ broker-dealer or investment adviser as to the ~~dealer's~~
7 broker-dealer's or investment adviser's business and affairs.

8 4. If the commissioner makes written findings of fact to support the conclusion that
9 grounds exist pursuant to subsection 1 for the commissioner to suspend or revoke
10 any registration, the commissioner may by order summarily suspend registration
11 pending final determination of any proceeding under this section. Upon the entry
12 of the summary order, the commissioner shall promptly notify the applicant, as well
13 as the employer or prospective employer if the applicant is an agent or investment
14 adviser representative, that it has been entered and the reasons. The person
15 subject to the order, if desiring a hearing, must make a written request for a
16 hearing to the commissioner within fifteen days after receipt of the notice. Within
17 fifteen days after receipt by the commissioner of a written request, the matter will
18 be set for hearing to determine if the order should be modified, vacated, or
19 extended pending a final determination. If a hearing is not requested and none is
20 ordered by the commissioner, the order will remain in effect until modified or
21 vacated by the commissioner.

22 5. If the commissioner finds, after affording a registered ~~dealer~~ broker-dealer, a
23 registered agent, a registered investment adviser, or a registered investment
24 adviser representative a hearing or opportunity for hearing as provided in section
25 10-04-12, that there are grounds to censure, suspend, or revoke the registration of
26 such ~~dealer~~ broker-dealer, agent, investment adviser, or investment adviser
27 representative, the commissioner may enter an order in the register of ~~dealers~~
28 broker-dealers, agents, investment advisers, and investment adviser
29 representatives censuring, suspending, or revoking the registration of such ~~dealer~~
30 broker-dealer, agent, investment adviser, or investment adviser representative.
31 Such order shall state specifically the grounds for its issuance. A copy of such

1 order shall be sent by registered mail to the ~~dealer~~ broker-dealer, agent,
2 investment adviser, or investment adviser representative whose registration is
3 censured, suspended, or revoked thereby at the person's business address and, if
4 the censure, suspension, or revocation is of the registration of an agent or
5 investment adviser representative, to the registered ~~dealer~~ broker-dealer or
6 registered investment adviser who employs such person. Suspension or
7 revocation of the registration of a ~~dealer~~ broker-dealer shall also suspend or
8 revoke the registration of all of the ~~dealer's~~ broker-dealer's agents. Suspension or
9 revocation of the registration of an investment adviser also suspends or revokes
10 the registration of all of the investment adviser's investment adviser
11 representatives. Suspension or revocation of the registration of an agent or
12 investment adviser representative solely because of employment by a ~~dealer~~
13 broker-dealer or investment adviser whose registration was suspended or revoked
14 shall not prejudice subsequent applications for registration by such person.

15 6. No action may be brought under this section by the commissioner after ten years
16 from the date of the alleged violation.

17 **SECTION 15. AMENDMENT.** Section 10-04-12 of the North Dakota Century Code is
18 amended and reenacted as follows:

19 **10-04-12. Hearings.** Before entering an order revoking the registration of any
20 securities as provided in section 10-04-09, the commissioner shall send to the issuer of the
21 securities, and if the application for registration of the securities was filed by a registered ~~dealer~~
22 broker-dealer, to the registered ~~dealer~~ broker-dealer, a notice of opportunity for hearing.

23 Before entering an order refusing to register any person as a ~~dealer~~ broker-dealer, agent,
24 investment adviser, or investment adviser representative, as provided in section 10-04-10, or
25 censuring, placing limitations, suspending, or revoking the registration of any person as a
26 registered ~~dealer~~ broker-dealer, agent, investment adviser, or investment adviser
27 representative as provided in section 10-04-11, the commissioner shall send to that person,
28 and if that person is an agent or investment adviser representative or an applicant for
29 registration as an agent or investment adviser representative, to the registered ~~dealer~~
30 broker-dealer or investment adviser who employs or proposes to employ that agent or
31 investment adviser representative, a notice of opportunity for hearing.

- 1 1. Notices of opportunity for hearing must be sent by registered mail, returned receipt
2 requested, to the addressee's business address, and the notice must state:
 - 3 a. The order the commissioner proposes to issue.
 - 4 b. The grounds for issuing the proposed order.
 - 5 c. That the person to whom the notice is sent may be afforded a hearing upon
6 request to the commissioner if the request is made within fifteen days after
7 receipt of the notice.
- 8 2. Whenever a person requests a hearing in accordance with this section, the
9 commissioner shall immediately set a date, time, and place for the hearing and
10 shall notify the person requesting the hearing. The date set for the hearing must
11 be within thirty days, but not earlier than fifteen days, after the request for hearing
12 has been made, unless otherwise agreed to by both the commissioner and the
13 person requesting the hearing.
- 14 3. Any hearing conducted under this section must be conducted in accordance with
15 chapter 28-32.
- 16 4. If the commissioner does not receive a request for a hearing within the prescribed
17 time, the commissioner may enter a final order which must set forth the findings
18 with respect to the matters involved.

19 **SECTION 16. AMENDMENT.** Section 10-04-15 of the North Dakota Century Code is
20 amended and reenacted as follows:

21 **10-04-15. Fraudulent practices.** It shall be a fraudulent practice and it shall be
22 unlawful:

- 23 1. For any person knowingly to subscribe to, or make or cause to be made, any
24 material false statement or representation in any application, financial statement,
25 or other document or statement required to be filed under any provision of this
26 chapter, or to omit to state any material statement or fact in any such document or
27 statement which is necessary in order to make the statements made, in light of the
28 circumstances under which they are made, not misleading.
- 29 2. For any person, in connection with the offer, sale, or purchase of any security,
30 directly or indirectly, to ~~employ~~:
 - 31 a. Employ any device, scheme, or artifice to defraud-

- 1 ~~3. For any person, in connection with the offer, sale, or purchase of any security,~~
2 ~~directly or indirectly, to make; or~~
3 b. Make any untrue statement of a material fact or to omit to state a material fact
4 necessary in order to make the statements made, in light of the
5 circumstances under which they are made, not misleading-
6 ~~4. For any person, in connection with the offer, sale, or purchase of any security,~~
7 ~~directly or indirectly, to engage; or~~
8 c. Engage in any act, practice, or course of business which operates or would
9 operate as a fraud or deception upon purchasers or the public.
10 ~~5. 3. For any person that advises others for compensation, either directly or indirectly or~~
11 ~~through publications or writings, as to the value of securities or the advisability of~~
12 ~~investing in, purchasing, or selling securities or that, for compensation as part of a~~
13 ~~regular business, issues or promulgates analyses or reports relating to securities:~~
14 a. To employ a device, scheme, or artifice to defraud another person; or
15 b. To engage in an act, practice, or course of business that operates or would
16 operate as a fraud or deceit upon another person or the public.
17 4. For any person, in connection with the offer, sale, or purchase of any security, or
18 advising a person to offer, sell, or purchase any security, directly or indirectly, to
19 effect a series of transactions creating actual or apparent active trading in any
20 security, or to raise or depress the price of a security, for the purpose of inducing
21 the purchase of the security.

22 **SECTION 17. AMENDMENT.** Section 10-04-16 of the North Dakota Century Code is
23 amended and reenacted as follows:

24 **10-04-16. Orders, injunctions, and prosecutions for violations - Civil penalty.** If it
25 appears to the commissioner, either upon complaint or otherwise, that any person has engaged
26 in, or is engaging in, or is about to engage in any act or practice or transaction that is prohibited
27 by this chapter or by any order of the commissioner issued under this chapter or which is
28 declared to be illegal in this chapter, the commissioner may:

- 29 1. Issue any order including cease and desist, rescission, stop, and suspension
30 orders, which the commissioner deems necessary or appropriate in the public
31 interest or for the protection of investors. The commissioner may, in addition to

- 1 any other remedy authorized by this chapter, impose by order and collect a civil
2 penalty against any person found in an administrative action to have violated any
3 provision of this chapter, or any rule or order adopted or issued under this chapter,
4 in an amount not to exceed ten thousand dollars for each violation. The
5 commissioner may bring actions to recover penalties pursuant to this section in
6 district court. A person aggrieved by an order issued pursuant to this subsection
7 may request a hearing before the commissioner if a written request is made within
8 fifteen days after receipt of the order. If a request for hearing is made under this
9 subsection, the commissioner shall schedule a hearing within a reasonable time.
10 Subsections 3 and 4 of section 10-04-12 apply to any hearing conducted under
11 this subsection. If, after a hearing, the commissioner sustains an order previously
12 issued, the sustaining order is subject to appeal to the district court of Burleigh
13 County ~~by serving on the commissioner within twenty days after the date of entry~~
14 ~~of the sustaining order a written notice of appeal signed by the appellant stating:~~
15 a. ~~The order of the commissioner from which the appeal is taken.~~
16 b. ~~The grounds upon which a reversal or modification of the order is sought.~~
17 e. ~~A demand for a certified transcript of the record of the order according to the~~
18 procedures set forth in chapter 28-32. Any order issued under this subsection
19 is a final order if it is properly served and no hearing was requested within the
20 required timeline. If an order issued under this subsection is sustained or
21 modified after a hearing held in accordance with section 10-04-12, the order
22 sustaining or modifying that order is a final order. If the final order is not
23 appealed in accordance the procedures set forth in chapter 28-32 or if the
24 final order is sustained on appeal, the securities department may file a
25 certified copy of the final order with the clerk of a court of competent
26 jurisdiction. The order so filed has the same effect as a judgment of the court
27 and may be recorded, enforced, or satisfied in the same manner as a
28 judgment of the court.
- 29 2. Apply to the district court of any county in this state for an injunction restraining the
30 person and the person's agents, employees, partners, officers, and directors from
31 continuing the act, practice, or transaction or engaging therein or doing any acts in

1 furtherance thereof, and for such other and further relief as the facts warrant. In
2 any proceeding for an injunction, the commissioner may apply for and on due
3 showing be issued the court's subpoena requiring the appearance forthwith of any
4 defendant and the defendant's agents, employees, partners, officers, or directors,
5 and the production of the documents, books, and records necessary for the
6 hearing upon the petition for an injunction. Upon proof of any of the offenses
7 described in this section, the court may grant the injunction as the facts warrant,
8 and a receiver or conservator may be appointed for the defendant or the
9 defendant's assets, and the court may assess civil penalties in an amount not to
10 exceed ten thousand dollars for each violation of this chapter, and any rules
11 promulgated thereunder or orders issued thereunder. The court shall not require
12 the commissioner to post a bond.

13 3. Refer any evidence available concerning the act, practice, or transaction to the
14 appropriate criminal prosecutor who may, with or without the reference, institute
15 the necessary criminal proceedings. The prosecutor may apply for and on due
16 showing be issued the court's subpoena requiring the appearance forthwith of any
17 defendant and the defendant's agents, employees, partners, officers, and
18 directors, and the production of any documents, books, and records necessary for
19 the prosecution of the criminal proceedings.

20 **SECTION 18. AMENDMENT.** Subsection 1 of section 10-04-16.1 of the North Dakota
21 Century Code is amended and reenacted as follows:

22 1. The department may:
23 a. Make such public or private investigations within or outside of this state as
24 deemed necessary to determine whether any person has violated, is violating,
25 or is about to violate any provision of this chapter or any rule or order
26 hereunder, or to aid in the enforcement of this chapter or in the prescribing of
27 rules and forms hereunder.
28 (1) For the purposes of this section, an investigation may include an
29 examination of the books and records of any person registered under
30 the provisions of this chapter. In the discretion of the commissioner,
31 the expense reasonably attributed to an investigation under this section

1 must be paid by the ~~dealer~~ broker-dealer, agent, investment adviser, or
2 investment adviser representative whose affairs are investigated.

3 (2) No person is liable to a broker-dealer, agent, investment adviser,
4 federal covered adviser, or investment adviser representative for
5 defamation relating to a statement that is contained in a record required
6 or requested by the securities department pursuant to this subsection
7 or required to be maintained under section 10-04-10.3, unless the
8 person knew, or should have known at the time the statement was
9 made, that it was false in a material respect or the person acted in
10 reckless disregard of the statement's truth or falsity.

11 b. Require or permit any person to file a statement in writing, under oath or
12 otherwise, as to all the facts and circumstances concerning the matter to be
13 investigated.

14 c. Publish information concerning any violation of this chapter or any rule or
15 order hereunder and may keep confidential the information or documents
16 obtained or prepared in the course of any investigation conducted under this
17 section but only during an active and ongoing investigation. If an
18 investigation under this section extends beyond six months, the commissioner
19 shall, upon a request by any party, state in writing that the need for
20 confidentiality still exists, the general reason why the need exists, and the
21 date, as can best be determined at the time, when the need for confidentiality
22 will cease.

23 **SECTION 19. AMENDMENT.** Section 10-04-17 of the North Dakota Century Code is
24 amended and reenacted as follows:

25 **10-04-17. Remedies.**

26 1. Every sale or contract for sale made in violation of any of the provisions of this
27 chapter, or of any rule or order issued by the commissioner under any provisions
28 of this chapter, shall be voidable at the election of the purchaser. The person
29 making such sale or contract for sale, and every director, officer, or agent of or for
30 such seller who shall have participated or aided in any way in making such sale
31 shall be jointly and severally liable to such purchaser who may sue either at law or

- 1 in equity to recover the full amount paid by such purchaser, together with all
2 taxable court costs, interest as provided in this subsection 2, and reasonable
3 attorney's fees, less the amount of any income received on the securities, upon
4 tender to the seller, in person or in open court, of the securities sold or of the
5 contracts made, or for damages if the purchaser no longer owns the securities.
6 Damages are the amount that would be recoverable upon a tender less the value
7 of the securities when the purchaser disposed of them and interest as provided in
8 subsection 2 from the date of disposition. ~~Provided:~~
- 9 ~~1. That no action may be brought under this section for the recovery of the purchase~~
10 ~~price after five years from the date that the aggrieved party knew or reasonably~~
11 ~~should have known about the facts that are the basis for the alleged violation; and~~
- 12 ~~2. That no~~ No purchaser shall claim or have the benefit of this section if the
13 purchaser shall have refused or failed to accept, within thirty days from the date of
14 such offer, an offer in writing of the seller to take back the securities in question
15 and to refund the full amount paid by such purchaser, together with interest on
16 such amount for the period from the date of payment by such purchaser down to
17 the date of repayment, ~~such~~. Any offer made pursuant to this subsection must be
18 registered or exempt from registration under this chapter in order to preclude a
19 subsequent civil action by the purchaser. For the purposes of this subsection,
20 interest to shall be computed as follows:
- 21 a. In case such securities consist of interest-bearing obligations, at the same
22 rate as provided in such securities, less the amount of any income received
23 on the securities.
- 24 b. In case such securities consist of other than interest-bearing obligations, at
25 the legal rate specified in section 47-14-05, less the amount of any income
26 received on the securities.
- 27 2. Any person that receives directly or indirectly any consideration for providing
28 investment advice to another person and violates this chapter is liable to the other
29 person as follows:
- 30 a. For violations of section 10-04-15, the person is liable for the actual damages
31 caused by the violative conduct, interest at the rate as specified in section

- 1 47-14-05, costs, and reasonable attorney's fees, less the amount of any
2 income received as a result of the violative conduct.
- 3 b. For all other violations of this chapter, or any rule promulgated thereunder,
4 the person is liable for all income collected in connection with the violative
5 conduct.
- 6 3. The provisions of this section do not apply to a violation of ~~subsection 1 or 3 of~~
7 section 10-04-08.4.
- 8 4. Nothing in this chapter shall limit any statutory or common-law right of any person
9 in any court for any act involved in the sale of securities.
- 10 5. No action may be taken under this section after five years from the date that the
11 aggrieved party knew or reasonably should have known about the facts that are
12 the basis for the alleged violation.
- 13 6. Each of the following persons are liable jointly and severally with and to the same
14 effect as persons liable under this section:
- 15 a. A person who controls, supervises, or serves as an officer, director, or
16 managing partner of a person liable under this section, unless the person did
17 not know, and in the exercise of reasonable care could not have known, of
18 the conduct by reason of which the liability is alleged to exist.
- 19 b. An individual who is an employee of or associated with a person liable under
20 this section and who materially aids the conduct giving rise to the liability,
21 unless the individual did not know, and in the exercise of reasonable care
22 could not have known, of the conduct by reason of which the liability is
23 alleged to exist.
- 24 c. A person who is a broker-dealer, agent, investment adviser, or investment
25 adviser representative that materially aids the conduct giving rise to the
26 liability under this section, unless the person did not know, and in the exercise
27 of reasonable care could not have known, of the conduct by reason of which
28 the liability is alleged to exist.

29 **SECTION 20. AMENDMENT.** Subsection 1 of section 10-04-18 of the North Dakota
30 Century Code is amended and reenacted as follows:

1 1. Any person who willfully violates any provision of this chapter, except ~~subsection 4~~
2 ~~or 3~~ of section 10-04-08.4 or subsection 4 of section 10-04-10, or any rule or order
3 of the commissioner made pursuant to the provisions of this chapter, or who
4 engages in any act, practice, or transaction declared by any provision of this
5 chapter to be unlawful shall be guilty of a class B felony.

6 **SECTION 21. AMENDMENT.** Subsection 2 of section 10-04-18 of the North Dakota
7 Century Code is amended and reenacted as follows:

8 2. As used in this section, the term "willfully", except as it applies to subdivisions a
9 and b of subsection 1 of section 10-04-10.1 and ~~subsections~~ subdivisions a and c
10 of subsection 2 and 4 of section 10-04-15, means that the person acted
11 intentionally in the sense that the person was aware of what the person was doing.
12 Proof of evil motive or intent to violate the law or knowledge that the law was being
13 violated is not required.

14 **SECTION 22. REPEAL.** Section 10-04-07 of the North Dakota Century Code is
15 repealed.