State of Rhode Island and Providence Plantations
DEPARTMENT OF BUSINESS REGULATION
Securities Division
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Cranston, RI 02910

SECURITIES DIVISION REGULATIONS

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Section 1. ***<u>Authority</u>***

This regulation is promulgated by the Director of the Department of Business Regulation of this state pursuant to Rhode Island General Law § 7-11-705, 42-35-1 *et seq*. All statutory reference herein shall be Rhode Island General Laws.

Section 2. ***<u>Purpose</u>***

The purpose of this regulation is to clarify and set forth practices and procedures consistent with Title 7 of the Rhode Island General Laws.

Section 3. ***<u>Severability Provisions</u>***

If any provision of this regulation or the application thereof to any person or circumstances is held invalid or unconstitutional, the invalidity or unconstitutionality shall not affect other provisions or applications of this regulation which can be given effect without the invalid or unconstitutional provision or application, and to this end the provision of this regulation are severable.

Section 4. ***<u>Regulatory Provisions</u>***

<u>RULE 202(a)-2 BROKER-DEALER EXEMPTIONS</u>

The following broker-dealers (as that term is defined in Rhode Island General Laws Section 7-11-101(1)) shall be exempt from the licensing requirements of Rhode Island General Laws Section 7-11-201:

(a) Any broker-dealer with is a resident of Canada, has no office or other physical presence in this State, and complies with the following conditions:

(i) Only effects or attempts to effect transactions exempted by Rhode Island General Laws Section 7-11-402 unless otherwise expressly required by the terms of the exemption:

(a) with or for a person from Canada who is temporarily present in this State, with whom the Canadian broker-dealer had a bona fide business-client relationship before the person entered the State; or

(b) with or for a person from Canada who is present in this State, whose transactions are in a self-directed tax advantages retirement plan in Canada of which the person is the holder or contributor;

(ii) Files a notice with the Director of the Department of Business Regulation (herein-after the "Director") in the form of the broker-dealer's current application for registration required by the jurisdiction in which the broker-dealer's head office is located, including any amendments thereto;

(ii) Files a consent to service of process with the Director;

(iii) Provides the Director, upon request, a copy of the broker-dealer's books and records relating to the broker-dealer's business in this State as a broker-dealer;

(iv) Informs the Director promptly of any regulatory, disciplinary or criminal action being taken against the broker-dealer, and the Director determines that such action would not be grounds for denial of the exemption contained herein;

(v) Is a member in good standing of a self-regulatory organization or stock exchange in good standing and provides evidence thereof to the Director;

(vi) Maintains provincial or territorial registration and membership in a self-regulatory organization or stock exchange in good standing and provides evidence thereof to the Director;

(vii) Discloses in writing to client in this State that the broker-dealer is not subject to the full regulatory requirements of the Rhode Island Uniform Securities Act (the "Act") or any regulations promulgated thereunder; and

(viii) Is not in violation of any of the provisions of the Act or any rules and regulations promulgated thereunder and is not in violation of any federal securities law and any rules and regulations promulgated thereunder.

Any agent who will be representing a Canadian broker-dealer exempted by this Rule shall also be deemed automatically exempt from licensing requirements so long as the agent shall comply with all of the conditions of this Rule.

RULE 202(A) (2) (C) (V) EXEMPTION OF CERTAIN BROKER-DEALER[S], INVESTMENT ADVISERS, AND SALES REPRESENTATIVES USING THE INTERNET FOR GENERAL DISSEMINATION OF INFORMATION ON PRODUCT S AND SERVICES

(A) The following broker-dealers, investment advisers, broker-dealer agents ("hereinafter BD agents") and investment adviser agent/representatives ("hereinafter IA reps") (as those terms are defined in Rhode Island General Laws Section 7-11-101(1) (9) [and] (10)) who use the Internet, World Wide Web, and similar proprietary or common carrier electronic systems (collectively hereinafter the "Internet") to distribute information on available products and services through certain communications made on the Internet directed generally to anyone having access to the Internet, and transmitted through postings on Bulletin Boards, displays on "Home Pages" or similar methods (hereinafter "Internet Communications") shall not be deemed as "transacting business" in this state for the purposes of Rhode Island General Laws 7-11-201 and 203 based solely on the fact if the following conditions are observed:

(i) The Internet Communication does not involve either effecting or attempting to effect transactions in securities, or the rendering of personalized investment advice for compensation, as may be, in Rhode Island over the Internet, but is limited to the dissemination of general information on products and services; and

(ii) The Internet Communication(s) indicted, directly or indirectly, that the BD agent(s) and/or IA rep(s) services are not being offered to residents of the State of Rhode Island; and

(iii) The Internet Communication is not otherwise directed to any person in Rhode Island by or on behalf of the BD agents/and or IA reps; and

(iv) No services are rendered by BD agents or IA reps in Rhode Island until they are registered as licensed BD agents or IA reps under Rhode Island General Laws Sections 7-11-201, 203; or exempt from licensing under Rhode Island General Laws 7-11-202, 204; and

(v) Follow-up, individualized responses to persons in Rhode Island by such BD agents or IA reps that involve either the effecting or attempting to affect transactions in securities, or the rendering of personalized investment advice for compensation, as may be, will not be made absent compliance with state broker-dealer, investment adviser, BD agents or IA reps registration requirements, or an applicable exemption or exclusion; and

(B) The Internet Communication contains a mechanism, including and without limitation, technical "firewalls" or other implemented policies and procedures, designed reasonably to ensure that prior to any subsequent, direct communication with prospective customers or clients in this state, said broker-dealer, investment adviser, BD agents or IA reps is [are] first registered in Rhode Island or qualifies [qualify] for an exemption or exclusion form such requirement. Nothing in this paragraph shall be construed to relieve a state registered broker-dealer, investment adviser, BD agent or IA rep from any applicable securities registration requirement in Rhode Island; and

(C) In the case of BD agents or IA reps:

(i) the affiliation with the broker-dealer or investment adviser of the BD agent or IA rep is prominently disclosed within the Internet Communication; and

(ii) the broker-dealer or investment adviser with whom the BD agents or IA reps is [are] associated retains the responsibility for reviewing

and approving the content of any Internet Communication by a [sic] BD agent or IA reps; and

(iii) the broker-dealer or investment adviser with whom the BD agents or IA reps is [are] associated first authorized the distribution of information on the particular products and services through the Internet Communication; and

(iv) in disseminating information through the internet Communication, the BD agents or IA reps act within the scope of the authority granted by the broker-dealer or investment adviser.

Reliance on any exemption from registration under this regulation does not preclude a BD agent or IA rep from relying on any exemption provided under the General Laws of Rhode Island or these regulations.

RULE 204(3)-1 EXEMPT INVESTMENT ADVISER REPRESENTATIVES

The following investment adviser representatives are exempt from the licensing requirement of Section 7-11-203:

1. Individuals who prepare report or analyses concerning securities who are not identified to advisory clients as having prepared such reports or analyses and who do not provide any investment advice directly to advisory clients (unless required to be licensed due to their roles as investment adviser representatives under Section 7-11-101(10)(2)-(5).

2. Individuals, who are not on the adviser's investment committee, who determine any investment advice to be given to advisory clients and who do not provide any investment advice directly to advisory clients. If no investment committee exists, this exemption applies to the individuals who determine any investment advice where there are more than five such individuals who are all supervised by one or more persons who are licensed as investment advisers or investment adviser representatives.

3. Individuals who solicit, offer or negotiate for the sale of or sell investment advisory services provided such solicitation activities are solely incidental to the activities for which such individuals are employed and who would not be an investment adviser representative except for the performance of the activities described in this paragraph 3.

4. Any partner, officer, director or person acting in a similar capacity who supervises employees only with respect to activities other than investment advisory activities requiring licensing under Section 7-11-101(10)(1)-(4).

RULE 204 (3)-2 EXEMPTION OF CERTAIN BROKER-DEALER[S], INVESTMENT ADVISERS, AND SALES REPRESENTATIVES USING THE INTERNET FOR GENERAL DISSEMINATION OF INFORMATION ON PRODUCTS AND SERVICES

(A) The following broker-dealers, investment advisers, broker-dealer agents ("hereinafter BD agents") and investment adviser agent/representatives ("hereinafter IA reps") (as those terms are defined in Rhode Island General Laws Section 7-11-101(1) (9) [and] (10)) who use the Internet, World Wide Web, and similar proprietary or common carrier electronic systems (collectively hereinafter the "Internet") to distribute information on available products and services through certain communications made on the Internet directed generally to anyone having access to the Internet, and transmitted through postings on Bulletin Boards, displays on "Home Pages" or similar methods (hereinafter "Internet Communications") shall not be deemed as "transacting business" in this state for the purposes of Rhode Island General Laws 7-11-201 and 203 based solely on the fact if the following conditions are observed:

(i) The Internet Communication does not involve either effecting or attempting to effect transactions in securities, or the rendering of personalized investment advice for compensation, as may be, in Rhode Island over the Internet, but is limited to the dissemination of general information on products and services; and

(ii) The Internet Communication(s) indicted, directly or indirectly, that the BD agent(s) and/or IA rep(s) services are not being offered to residents of the State of Rhode Island; and

(iii) The Internet Communication is not otherwise directed to any person in Rhode Island by or on behalf of the BD agents/and or IA reps; and

(iv) No services are rendered by BD agents or IA reps in Rhode Island until they are registered as licensed BD agents or IA reps under Rhode Island General Laws Sections 7-11-201, 203; or exempt from licensing under Rhode Island General Laws 7-11-202, 204; and

(v) Follow-up, individualized responses to persons in Rhode Island by such BD agents or IA reps that involve either the effecting or attempting to affect transactions in securities, or the rendering of personalized investment advice for compensation, as may be, will not be made absent compliance with state broker-dealer, investment adviser, BD agents or IA reps registration requirements, or an applicable exemption or exclusion; and

(B) The Internet Communication contains a mechanism, including and without limitation, technical "firewalls" or other implemented policies and procedures, designed reasonably to ensure that prior to any subsequent, direct communication

with prospective customers or clients in this state, said broker-dealer, investment adviser, BD agents or IA reps is [are] first registered in Rhode Island or qualifies [qualify] for an exemption or exclusion form such requirement. Nothing in this paragraph shall be construed to relieve a state registered broker-dealer, investment adviser, BD agent or IA rep from any applicable securities registration requirement in Rhode Island; and

(C) In the case of BD agents or IA reps:

(i) rep is prominently disclosed within the Internet Communication; and

(ii) the broker-dealer or investment adviser with whom the BD agents or IA reps is [are] associated retains the responsibility for reviewing and approving the content of any Internet Communication by a BD agent or IA reps; and

(iii) the broker-dealer or investment adviser with whom the BD agents or IA reps is [are] associated first authorized the distribution of information on the particular products and services through the Internet Communication; and

(iv) in disseminating information through the internet Communication, the BD agents or IA reps act within the scope of the authority granted by the broker-dealer or investment adviser.

Reliance on any exemption from registration under this regulation does not preclude a BD agent or IA rep from relying on any exemption provided under the General Laws of Rhode Island or these regulations.

RULE 205(a)-1 LICENSING APPLICATIONS

The application and consent to service of process requirements of Section 7-11-205 are met as follows:

(1) The application for initial registration as a broker-dealer shall be made by completing Form BD in accordance with the form instructions and by filing the form with the Central Registration Depository ("CRD") operated by the FINRA. The annual renewal shall be filed with the CRD. The application for initial registration as a sales representative shall be made by filing Form U-4 with the CRD. The annual renewal shall be filed with the CRD. If the broker-dealer is a non-NASD member the application, amendments and renewal shall be filed with the Securities Division.

(2) The application for initial registration as an investment adviser shall be made by completing Form ADV in accordance with the form instructions and by filing the form with the Investment Adviser Registration Depository ("IARD") operated by the FINRA. The application for an investment adviser annual renewal shall be filed with the IARD.

(3) The application for initial registration as an investment adviser representative shall be made by filing Form U-4 with the CRD. The annual renewal shall be made with the CRD.

RULE 207(a)-1 EXAMINATIONS

1. (A) Examination Requirements

An individual applying to be registered as an investment adviser or investment adviser representative under the Act shall provide the Director with proof of obtaining a passing score on one of the following examinations:

(1) The Uniform Investment Adviser Law Examination (Series 65 examination); or
(2) The General Securities Representative Examination (Series 7 examination) and the Uniform Combined State Law examination (Series 66 examination).

(B) Grandfathering

(1) Any individual who is registered as an investment adviser or investment adviser representative in any jurisdiction in the United States on the effective date of this Rule shall not be required to satisfy the examination requirements for continued registration, except that the Director may require additional examinations for any individual found to have violated any state or federal securities law.

(2) An individual who has not been registered in any jurisdiction for a period of two (2) years shall be required to comply with the examinations requirements of this Rule.

(C) Waivers

The examination requirement shall not apply to an individual who currently holds one of the following professional designations:

(1) Certified Financial Planner™/CFP® certification awarded by the International Board of Standards and Practices for Certified Financial Planners, Inc.;

(2) Chartered Financial Consultant (ChFC) awarded by the American College, Bryn Mawr, Pennsylvania;

(3) Personal Financial Specialist (PFS) awarded by the American Institute of Certified Public Accountants;

(4) Chartered Financial Analyst (CFA) awarded by the Institute of Chartered Financial Analysts;

(5) Chartered Investment Counselor (CIC) awarded by the Investment Counsel Association of America, Inc.; or

(6) Such other professional designation as the Director may by rule or order recognize.

2. Each applicant for an initial license as a sales representative must pass, as above, the Series 63 or the Series 66, and either the Series 2 or the Series 7 examinations, unless the applicant's proposed securities activities will be restricted, in which case the applicant is required to pass, as above, each examination administered by the FINRA which relates to the applicant's proposed activities.

3. Prior to issuance of an initial broker-dealer license, and at all times thereafter, at least one (1) person located in the principal office of the broker-dealershall be designated in the license application to act in a supervisory capacity and be licensed as a registered representative of the broker-dealer. Each designated supervisor shall meet the examination requirement of paragraph (2) above and pass, as above, the FINRA General Securities Principal Qualification exam (Series 24), unless the broker-dealer's proposed securities activities will be restricted, in which case the designated supervisor is required to pass, as above, each examination administered by the FINRA which relates to the broker-dealer's securities activities.

4. Repealed.

5. The examination or program/ designation requirements in paragraphs 1. and 2. are waived for any applicant who meets the requirements of either of the following:

(a) The applicant has been licensed in the same capacity under the Rhode Island Securities Act at any time within two (2) years prior to the date the application is file; or

(b) The applicant, within two (2) years prior to the date the application is filed, has been~~:~~ licensed as a sales representative under the securities law of any other state which required passage of the Series 63 or Series 66 and registered with the NASD; licensed as a investment adviser representative under the securities law of any other state which requires passage of the Series 65 or Series 66.

6. A bona fide officer or director of an issuer selling securities registered under SCOR is exempt from the examination requirements for sales representative registration if that person will not be receiving sales related compensation so long as:

(a) Any officer or director who offers of sells securities registered under SCOR must provide a copy of the "Consumers Guide to Small Business Investments" to all offerees at or before the time the offering document is required to be delivered.

(b) The registration of any person relying on the exemption set forth in this section may be suspended or revoked if that person fails to deliver a copy of the "Consumers Guide to Small Business Investments" to any person to whom he or she offers or sells securities pursuant to the SCOR offering for which he or she is being registered.

(c) To qualify for the exemption set forth above, a person must submit to the Director an affidavit representing that he or she:

(1) Is a bona fide officer or director of the SCOR issuer,

(2) Will provide all persons to whom he or she offers or sells securities with a copy of "Consumers Guide to Small Business Investments,"

(3) Will not be receiving sales related compensation for the sale of the SCOR securities,

(4) Understands that the sales representative registration will only authorize the offer and sale of securities on behalf of the issuer of the SCOR offering to be carried out pursuant to the registration statement that has been filed with the Director, and

(5) Understands that failure to provide all offerees with a copy of "Consumers Guide to Small Business" is grounds for revocation or suspension of his or her registration.

RULE 208(b)-1 EXPIRATION OF LICENSES

The licenses of a broker-dealer, sales representative, investment adviser or investment adviser representative expires on December 31 of each year.

RULE 208 (d) MULTIPLE LICENSING OF SALES REPRESENTATIVES

1. The Director may authorize multiple licensing under this section if each employer files a written undertaking with the Director containing the following information:

a. A statement by each employer that it consents to the multiple employment of the sales representative and setting forth the effective date of the multiple employment; and

b. A statement by each employer that it agrees to assume joint and several liability with all of the other employers for any act or omission of the sales representative during the stated employment period.

2. The Director may concurrently license an individual as a sales representative and investment adviser representative provided that an individual acting in such a capacity shall obtain prior written consent from both employers to act in such a capacity, and the written consent is filed with the Director.

RULE 208 (g) MULTIPLE LICENSURE OF INVESTMENT ADVISERS

1. The Director may authorize multiple licensing under subsections (d) and (g) of Section 208 if each licensed or registered entity a written undertaking with the Director containing the following information:

   (A) A statement by each licensed or registered entity that it consents to the multiple employment of the sales representative or investment adviser representative and setting forth the effective date of the multiple employment; and

   (B) A statement by each licensed or registered entity that it agrees to assume joint and several liability with all other named licensed or registered entities for any act or omission of any sales representative or investment adviser representative during the employment period.

2. The Director may concurrently license an individual as a sales representative and investment adviser agent provided that an individual acting in such capacity shall obtain prior written consent from both licensed or registered entities to act in such capacity, and the written consent is filed with the Director.

RULE 209(a)-1 MINIMUM NET CAPITAL

A. Every broker-dealer, whether or not subject to Rule 15c3-1 under the Securities Exchange Act of 1934, shall maintain net capital in such minimum amounts as are designated in that rule for the activities to be engaged in by a broker-dealer in this state.

B. The aggregate indebtedness of each broker-dealer, whether or not subject to Rule 15c3-1 under the Securities Exchange Act of 1934, to all other persons shall not exceed the levels prescribed in that rule.

C. If a broker-dealer is an individual, the person shall segregate from personal capital an amount sufficient to satisfy the net capital requirement, and the amount so segregated shall be utilized solely for the business for which the broker-dealer is licensed.

D. An investment adviser licensed under RIUSA, but exempt from registration under the Investment Advisers Act of 1940, must at all times maintain net worth of not less than $5,000. This applies only to investment advisers that do not take or retain custody of securities or funds of a client. Investment advisers that take or retain custody must comply with the provisions of Rule 215(b)-1.

RULE 209(b)-1 BROKER-DEALER BOND

A. Every broker-dealer who is not registered under the Securities Exchange Act of 1934 shall file with the director a surety bond in the amount set by order of the director with a minimum of $100,000 and a maximum of $1,000,000, except as provided in paragraphs B and C.

B. Broker-dealers who are members of the Securities Investor Protection Corporation need not comply with paragraph A.

C. Broker-dealers who do not have custody or possession of any customer's funds or securities need not comply with paragraph A.

D. Every sales representative associated with a broker-dealer who is not registered under the securities Exchange Act of 1934 shall file with the director a surety bond in the amount set by order of the director with a minimum of $10,000 and a maximum of $100,000, unless the broker-dealer with whom the sales representative is associated need not comply with paragraph A.

RULE 209(c)-1 POST LICENSING FILINGS

The director hereby determines the following information to be necessary for purposes of the post-licensing requirements or Section 7-11-209(c):

1. Each broker-dealer, whether or not subject to Rule 17a-5 of the Securities Exchange Act of 1934, shall prepare an annual financial statement as directed by Rule 17a-5 of the Securities Exchange Act of 1934. A copy of each annual financial statement shall be retained by the broker-dealer as prescribed in Rule 17a-4 of the Securities Exchange Act of 1934 and, upon the written or verbal request of the Director anytime during that period, furnish a copy of said annual financial statement within seventy-two hours of the request.

2. Each broker-dealer shall file with the director a copy of any complaint related to its business, transactions or operations naming the broker-dealer or any of its partners, officers or agents as defendant in any civil or criminal proceeding, or in any administrative or disciplinary proceeding by any public or private regulatory agency, within twenty (20) days of the date the complaint is served on the broker-dealer; a copy of any answer or reply thereto filed by the broker-dealer within ten (10) days of the date such is filed; and a copy of any decision, order or sanction made with respect to any such proceeding within twenty (20) days of the date the decision order or sanction is rendered

3. Each broker-dealer shall file with the director a notice of transfer of control or change of name within thirty (30) days after the date on which the transfer of control or change of name occurs.

4. Except as provided in paragraphs 3., 4. and 9. all material changes in the information included in a broker-dealer's most recent application for license shall be set forth in an amendment to Form BD filed with the Director within thirty (30) days after the change occurs.

5. Every broker-dealer shall file with the Director the following reports concerning its net capital and aggregate indebtedness:

(a) Immediate telegraphic or written notice whenever the net capital of the broker-dealer is less than is required under Rule 209a-1 specifying the respective amounts of its net capital and aggregated indebtedness on the date of the notice:

(b) A copy of every report of notice required to be filed by the broker-dealer pursuant to Rule 17a-11 of the Securities Exchange Act of 1934.

6. Each broker-dealer shall give immediate written notice to the director of the theft or disappearance of any Rhode Island customers' securities or funds that are in the custody or control of its offices, whether within or outside this state, stating all material facts known to it concerning the theft or disappearance. However, if a broker-dealer complies with the provisions of 17 CFR 240.17(f)(1), such broker-dealer need not give the notice required by this paragraph.

7. Each broker-dealer shall file with the director a copy of any subordination agreement relating to the broker-dealer, within ten (10) days after the agreement has been entered, unless prior thereto the broker-dealer has filed a copy of the agreement with a national securities exchange or association of which it is a member.

8. Each broker-dealer shall notify the director in writing at least ten (10) days prior to opening and not more than ten (10) days after closing in this state any branch office as defined in section 7-11-206(b). The notification shall include such information as the director may request.

9. Each investment adviser shall within ninety days after its fiscal year end prepare a balance sheet in accordance with generally accepted accounting principles and retain a copy of that balance sheet for a period of not less than five years unless such retention requirement would be in violation of 15 U.S.C. 80b-18a(b). At any time within that period, such investment adviser shall make available, within seventy-two hours of any verbal or written request of the Director, a copy of said balance sheet. Investment advisers who retain custody of any client's funds or securities must prepare and retain as above an

audited balance sheet and, within seventy-two hours, upon the verbal or written request of the Director, make said audited balance sheet available.

10. Each investment adviser shall file with the director a copy of any complaint related to its business, transactions, or operations naming the investment adviser or any of its partners, officers or investment adviser representatives as defendants in any civil or criminal proceeding, or in any administrative or disciplinary proceeding by any public or private regulatory agency, within twenty (20) days of the date the complaint is served on the investment adviser; a copy of any answer or reply to the complaint filed by the investment adviser within ten (10) days of the answer or reply is filed; and a copy of any decision, order or sanction made with respect to any such proceeding within twenty (20) days of the date the decision, order or sanction is rendered.

11. Each investment adviser shall file with the director a notice of transfer of control or change of name within thirty (30) days after the date on which the transfer of control or change of name occurs.

12. Except as provided in paragraphs 11.and 12.; all material changes in the information included in an investment adviser's most recent application for license shall be set forth in an amendment to form ADV filed with the director within the time prescribed for filings such amendments with the United States Securities and Exchange Commission or for advisers who are not registered under the Investment Advisers Act of 1940, thirty (30) days after the change occurs.

RULE 209(d)-1 REQUIRED RECORDS

A. Every broker-dealer, whether or not subject to the Securities Exchange Act of 1934, shall make and keep current the records required by that Act and rules thereunder.

B. Every investment adviser, whether or not subject to the Investment Advisers Act of 1940, shall make and keep current the records required by that Act and rules thereunder.

RULE 210(a)-1 SUCCESSOR FIRMS

An application for licensing of a successor under Section 7-11-210 shall be effected by way of the same forms and fees as for initial licensing.

RULE 211(c)-1 INSPECTION FEES

Licensees shall be charged a fee of one hundred dollars ($100.00) per examiner per day plus actual costs of transportation and lodging where applicable for examinations under Section 7-11-211.

RULE 212(a)-1 UNETHICAL OR DISHONEST PRACTICES

Under authority of Section 705(a)(3), the director hereby defines the term "unethical or dishonest practices", as that term appears in Section 7-11-212(a)(8) and without limiting the meaning to that set forth below, to mean one or more instances where a person has engaged in the conduct described below:

A. The following are deemed to be unethical or dishonest practices by a broker-dealer:

1. Causing any unreasonable delay in the deliver of securities purchased by any of its customers, or in the payment upon request of free credit balances reflecting completed transactions of any of its customers;

2. Inducing trading in a customer's account which is excessive in size or frequency in view of the financial resources and character of the account;

3. Recommending to a customer the purchase, sale or exchange of any securities without reasonable grounds to believe that the recommendation is suitable for the customer after reasonable inquiry concerning the customer's investment objectives, financial situation and needs, and any other information known by the broker-dealer;

4. Executing a transaction on behalf of a customer without authority to do so;

5. Executing a transaction for the account of a customer upon instruction from a third party without first obtaining written discretionary authority from the customer, unless the discretionary power relates solely to the time or price for the execution of orders, or both;

6. Exercising any discretionary power in effecting a transaction of a customer's account without first obtaining written discretionary authority from the customer, unless the discretionary power relates solely to the time or price for the execution of orders, or both;

7. Extending, arranging for, or participating in arranging for credit to a customer in violation of the Securities Exchange Act of 1934 or the regulations of the Federal Reserve Board;

8. Executing any transaction in a margin account without obtaining from its customer a written margin agreement not

later than fifteen (15) calendar days after the initial transaction in the account;

9. Failing to segregate customers'; free securities or securities in safekeeping;

10. Hypothecating a customer's securities without having a lien thereon unless written consent of the customer is first obtained, except as permitted by rules of the Securities and Exchange Commission;

11. Charging its customer an unreasonable commission or service charge in any transaction executed as agent for the customer;

12. Entering into a transaction for its own account with a customer with an unreasonable mark-up or mark-down;

13. Entering into a transaction for its own account with a customer in which a commission is charged;

14. Entering into a transaction with or for a customer at a price not reasonable related to the current market price;

15. Executing orders for the purchase by a customer of securities not registered or exempted unless the transaction is exempted under RIUSA;

16. Representing itself as a financial or investment planner, consultant, or adviser, when the representation contains any untrue statement of material fact or omits to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; including but not limited to the nature of the services offered, the qualifications of the person offering the services, or the method of compensation for the services;

17. Violating any material rule of the U.S. Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), any national or regional securities exchange or national securities association of which it is a member with respect to any customer, transaction or business in this state;

18. Failing to furnish to a customer purchasing securities in an offering, not later than the date of confirmation of the

transaction, either a final prospectus or a preliminary prospectus and an additional document, which together include all information set for the in the final prospectus;

19. Introducing customer transactions on “fully disclosed” basis to another broker-dealer that is not licensed under RIUSA; and

20. Recommending to a customer that the customer engage the services of an investment adviser that is not licensed or exempt from licensing under RIUSA.

B. The following are deemed unethical or dishonest practices by a sales representative:

1. Borrowing money or securities from, or lending money or securities to a customer;

2. Acting as a custodian for money, securities or an executed stock power of a customer;

3. Effecting securities transactions with a customer not recorded on the regular books or records of the broker-dealer with which the sales representative is associated, unless the transactions are disclosed to, and authorized in writing by the broker-dealer prior to execution of the transactions;

4. Effecting transactions in securities for an account operating under a fictitious name, unless disclosed to, and permitted in writing by the broker-dealer or issuer with which the sales representative is associated;

5. Sharing directly or indirectly in profits or losses in the account of any customer without first obtaining written authorization of the customer and the broker-dealer with which the sales representative is associated;

6. Dividing or otherwise spitting commissions, profits or other compensation receivable in connection with the purchase or sale of securities in this state with any person not so licensed as a sales representative associated with the same broker-dealer, or with a broker-dealer under direct or indirect common control;

7. Using advertising describing or relating to the sales representative’s securities business unless the advertising

clearly identifies the name of the broker-dealer or issuer with which the sales representative is associated;

8. Misrepresenting the services of a licensed investment adviser on whose behalf the sales representative is soliciting business or accounts; and

9. Engaging in any of the practices specified in paragraphs A. 1. through 8., 15. through 18. or 20.

C. The following are deemed to be unethical or dishonest practices be an investment adviser or investment adviser representative:

1. Recommending to a client to whom investment supervisory, management or consulting services are provided the purchase, sale or exchange of any security without reasonable grounds to believe that the recommendation is suitable for the client on the basis of information furnished by the client after reasonable inquiry concerning the client's investment objectives, financial situation and needs, and any other information known by the investment adviser;

2. Exercising any discretionary power in placing an order for the purchase or sale of securities for a client without obtaining written discretionary authority from the client within ten (10) business days after the date of the first transaction placed pursuant to oral discretionary power relates solely to the price at which, or the time when, an order involving a definite amount of a specific security shall be executed, or both;

3. Inducing trading in a client's account that is excessive in size or frequency in view of the financial resources, investment objectives and character of the account;

4. Placing an order to purchase or sell a security for the account of a client without authority to do so;

5. Placing an order to purchase or sell a security for the account of a client upon instruction of a third party without first having obtained a written third-party trading authorization from the client;

6. Borrowing money or securities from a client unless the client is a broker-dealer, an affiliate of the investment adviser, or a depository institution engaged in the business of loaning

funds (for the purpose of the subsection, the term borrowing does not include the issuance of an obligation that would otherwise be a security under RIUSA);

7. Loaning money to a client unless the investment adviser is a depository institution engaged in the business of loaning funds or the client is an affiliate of the investment adviser;

8. Misrepresenting a material fact to any advisory client, or prospective advisory client with regard to the qualifications of the investment adviser or any person associated with the investment adviser, or the nature of the advisory services being offered or the fees to be charged for such service, or omitting to state a material fact necessary to make the statements made regarding qualifications, services or fees, in light of the circumstances under which they are made, not misleading;

9. Providing a report or recommendation to any advisory client prepared by someone other than the adviser without disclosing that fact. (This prohibition does not apply to a situation where the adviser uses published research reports or statistical analyses to render advice or where an adviser orders such a report in the normal course of providing services;

10. Failing to disclose to clients in writing before entering into or renewing an advisory agreement with the client any material conflict of interest relating to the adviser or any person associated with the adviser which could reasonably be expected to impair the rendering of unbiased and objective advice including:
    a. Compensation arrangements connected with advisory services to clients which are in addition to compensation from such clients for such services; and

    b. Charging a client an advisory fee for rendering advice when a commission for executing securities transactions pursuant to such advice will be received by the adviser or its employees;

11. Guaranteeing a client that a specific result will be achieved (gain or no loss e.g.), with advice which will be rendered;

12. Publishing, circulating or distributing any advertisement which does not comply with Rule 206(4)-1 under the Investment Advisers Act of 1940;

13. Disclosing the identity, affairs, or investments of any client unless required by law to do so, or unless consented to by the client;

14. Taking any action, directly or indirectly, with respect to those securities or funds in which any client has any beneficial interest, where the investment adviser has custody or possession of such securities of funds when the adviser's action is subject to and does not comply with the requirements of Rule 206(4)-2 under the Investment Advisers Act of 1940; and

15. Entering into, extending or renewing any investment advisory contract unless such contract is in writing and discloses, in substance, the services to be provided, the term of contract, the advisory fee, the formula for computing the fee, the amount of prepaid fee to e returned in the event of contract termination or non-performance, whether the contract grants discretionary power to the adviser and that no assignment of such contract shall be made by the investment adviser without the consent of the other party to the contract.

RULE 215(a)-1 ADVISER CUSTODY CONDITIONS – FEDERALLY REGISTERED

An investment adviser registered under the Investment Advisers Act of 1940 may take or retain custody of securities or funds of a client only while the investment adviser is in full compliance with Rule 206(4)-2 promulgated under the act and while the investment adviser maintains a net worth of not less than $25,000.00.

RULE 215(b)-1 ADVISER CUSTODY CONDITIONS – FEDERALLY EXEMPT

An investment adviser licensed under RIUSA, but exempt from registration under the Investment Advisers Act of 1940, may take or retain custody of securities or funds of a client only while the investment adviser is in full compliance with Rule 206(4)-2 under the Investment Adviser Act of 1940, and the provision s of the RIUSA and all relevant rules promulgated thereunder; the investment adviser must maintain a net worth of not less than $25,000.00 and have filed with the directory a surety bond in the amount set by order of the director with a minimum of $100,000 and a maximum or $1,000,000; and the investment adviser must insure that every investment adviser representative associated

with the investment adviser has filed with the director a surety bond in the amount set by order of the Director with a minimum of $10,000 and a maximum of $100,000.

RULE 304(c)-1 UNIFORM LIMITED OFFERING REGISTRATION

A. Authority, Scope and Purpose

1 This Regulation is issued by the Department of Business Regulation ("Department") pursuant to the authority granted by Sections 7-11-304(c), 705 and Section 2-14-17.

2 This regulation applies to the registration of corporate securities offerings by qualification under Section 7-11-304(c) which are exempt from registration with the Securities and Exchange Commission under Securities and Exchange Commission Regulation D, Rule 230.504, or under Regulation A, Rule 230.251, as promulgated under the Securities Act of 1933.

3 The purpose of this Regulation is to implement Section 7-11-304(c) in order to simplify the registration of small corporate securities offerings and promote uniformity with other states.

B. Incorporation by reference of Form U-7

1. This Regulation adopts for use in Rhode Island the Small Corporate Offering Registration Form (Form U-7) as adopted by the North American Securities Administrations Association, Inc. on April 29, 1992 and any subsequent revisions thereto.

C. General rules

1. Qualification. To be eligible for the Uniform Limited Offering Registration ("ULOR") under Section 7-11-304(c), the following conditions apply:

(a) The issuer must be a corporation organized under the laws of one of the states or possessions of the United States.

(b) The issuer must not be an investment company subject to the Investment Company Act of 1940.

(c) The issuer must not be subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1933.

(d) The offering must not be a "blind pool" or other offering for which the specific business to be engaged in or property to be acquired by the issuer cannot be specified.

(e) The issuer may not engage in, or propose to engage in, petroleum exploration or production or mining or other extractive industries.

(f) The following issuers and programs will not be permitted to utilize ULOR registration unless written approval is obtained from the Director of the Department of Business Regulation (the "Director"), based upon a showing that adequate disclosure can be made to investors using the Form U-7 format:

(i) Holding companies or companies whose principal purpose is owning stock in, or supervising the management of, other companies;

(ii) Portfolio companies, such as real estate investment trusts as defined in Section 1(r) of the North American Securities Administrators Association's Statement of Policy regarding real estate investment trusts;

(iii) Issuers with complex capital structures;

(iv) Commodity pools;

(v) Equipment leasing programs;

(vi) Real estate programs; and

(vii) Other issuers that the Director, for good cause, may find inappropriate for ULOR registration.

(g) The aggregate offering price of the securities offered (within or outside of this state) shall not exceed the aggregate offering price in Securities and Exchange Commission Regulation D, Rule 230.504, or Regulation A, Rule 230.251 as promulgated under the Securities Act of 1933, or successor rules, whichever aggregate offering price is higher, less the aggregate offering price for all securities sold within twelve months before the start of, and during the offering of, the securities in reliance on nay exemption under the Securities Act of 1933 or in violation of Section 5(a) of that Act.

(h) The offering price for common stock must be equal to or greater than $1.00 per share. This minimum offering price also applies to the exercise price of options, warrants or rights for common stock and to the conversion price of securities convertible into common stock if these types of securities are to be offered.

(i) The issuer may not split its common stock or declare a stock dividend for two (2) years after effectiveness of the registration.

(j) The issuer may engage selling agents to sell the securities. Commissions, fees or other remuneration for soliciting any prospective purchaser in this state in connection with an offering may only be made to persons who, if required to be registered, the issuer believes and has reason to believe, are appropriately registered in this state.

(k) The securities must be offered and sold only on behalf of the issuer and Form U-7 may be used by any selling security-holder to register his or her securities for resale.

2. Disqualification for ULOR registration under Section 7-11-304(c).

(a) ULOR registration shall not be available for the securities of any issuer if such issuer, any of its predecessors or any affiliated issuer:

i. Has filed a registration statement which is the subject of any pending proceeding or examination under Section 8 of the Securities Act of 1933, or is the subject of any refusal order or stop order entered thereunder within five years prior to the filing of the application to register securities;

ii. Is subject to any pending proceeding under Regulation A, Rule 230.258, of the Securities Act of 1933 or any similar rule adopted under Section 3(b) of the Securities Act of 1933, or to any order entered thereunder within five years prior to the filing of the application to register securities;

iii. Has been convicted within five years prior to the filing of such application of any felony or misdemeanor in connection with the purchase or sale of any security or involving the making of any false filing with the Securities and Exchange Commission;

iv. Is subject to any order, judgment or decree of any court of competent jurisdiction temporarily or preliminarily restraining or enjoining such person from engaging in or continuing any conduct or practice in connection with the purchase or sale of any security or involving the making of any false

filing with the Securities and Exchange Commission; or

v. Is subject to a United States Postal Service false representation order entered under Section 3005 of title 39, United State Code, within five years prior to the filing of the application to register securities; or is subject to a temporary restraining order or preliminary injunction entered under Section 3007 of title 39, United States Code.

(b) ULOR registration shall not be available for the securities of any issuer if such issuer, any of its directors, officers, ten percent shareholders of any class of its equity securities, promoters presently connected with it in any capacity or selling agents of the securities to be offered or any officers, directors, or partners of such selling agent:

(i) Has been convicted within ten years prior to the filing of the application to register securities of any felony or misdemeanor in connection with the purchase or sale of any security, involving the making of a false filing with the Securities and Exchange Commission or arising out of the conduct of the business or an underwriter, broker, dealer, municipal securities dealer, or investment adviser;

(ii) Is subject to any order, judgment or decree entered by any court of competent jurisdiction temporarily or preliminarily enjoining or restraining, or is subject to any order, judgment or decree of any court of competent jurisdiction entered within five years prior to the filing of the application to register securities, permanently enjoining or restraining such person from engaging in or continuing any conduct or practice in connection with the purchase or sale of any security, involving the making of a false filing with the Securities and Exchange Commission or arising out of the conduct of the business of an underwriter, broker, dealer, municipal securities dealer, or investment adviser;

(iii) Is subject to an order of the Securities and Exchange Commission entered pursuant to Sections 15(b), 15B(a), or 15B(c) or the Securities Exchange Act of 1934; or is subject to an order of the Securities and

Exchange Commission entered pursuant to Section 203(e) or (f) of the Investment Adviser Act of 1940;

(iv) Is subject to any order, judgment or decree of any court of competent jurisdiction temporarily or preliminarily restraining or enjoining such person from engaging in or continuing any conduct or practice in connection with the purchase or sale of any security or involving the making of any false filing with the Securities and Exchange Commission; or

(v) Is subject to a United States Postal Service false representation order entered under Section 3005 of title 39, United State Code, within five years prior to the filing of the application to register securities; or is subject injunction entered under Section 3007 title 39, United States Code, with respect to conduct alleged to have violated Section 3005 of title 39, United States Code.

(c) ULOR registration shall not be available for the securities of any issuer if any promoter presently connected with it in any capacity or any selling agents of the securities to be offered was or named as, an underwriter of any securities:

(i) Covered by any registration statement which is the subject of any pending proceeding or examination by the Securities and Exchange Commission under Section 8 of the Securities Act of 1933, or is the subject of any refusal order or stop order entered thereunder within five years prior to the filing of any application to register securities; or

(ii) Covered by any filing which is subject to any pending proceeding under Regulation A, Rule 230.258 of the Securities Act of 1933 or any similar rule adopted under Section 3(b) of the Securities Act of 1933, or to an order entered thereunder within five years prior to the filing of the application to register securities

(d) ULOR registration shall not be available for the securities of any issuer if such issuer, any of its directors, officers, ten percent shareholders of any class of its equity securities, promoters presently connected with it is any capacity or selling agents of the securities to

be offered or any officers, directors, or partners of such selling agents:

(i) Is the subject of an adjudication or determination within the last five years by a securities agency or administrator of another state or ca court of competent jurisdiction that the persons has violated the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940, the Commodity Exchange Act, or the securities law of any other state;

(ii) Within the last ten years, pled guilty or nolo contendere to, or been convicted in a domestic or foreign court of an offense that the Director finds:

(A) Involves the purchase or sale of a security, taking a false oath, making a false report, bribery, perjury, burglary, robbery, or attempt or conspiracy to commit any of those offenses;

(B) Arises out of the conduct of business as a broker-dealer, investment adviser, depository institution, insurance company, or fiduciary; or

(C) Involves the larceny, theft, robbery, extortion, forgery, counterfeiting, fraudulent concealment, embezzlement, fraudulent conversion, or misappropriation of funds or securities or an attempt or conspiracy to commit any of those offenses;

(iii) Is permanently or temporarily enjoined buy a court of competent jurisdiction from acting as an investment adviser, investment adviser representative, underwriter, broker-dealer, sales representative, or as an affiliated person or employee of an investment company, depository institution, or insurance company, or from engaging in or continuing conduct or practice in connection with any of the foregoing activities, or in connection with the purchase or sale of a security;

(iv) Is the subject of an order of the Director denying, suspending, or revoking the person's license as a broker-dealer, sales representative, investment adviser, or investment adviser representative; or

(v) Is the subject of any of the following orders that are currently effective and were issued within the last five years:

(A) An order y the securities agency or administrator of another state or Canadian province or territory, or by the Securities and Exchange Commission, denying, suspending, or revoking the person's license as a broker-dealer, sales representative, investment adviser, or investment adviser representative, or the substantial equivalent of those terms;

(B) A suspension or expulsion from membership in or association with a member of a self regulatory organization;

(C) A United States Postal Service fraud order;

(D) A cease and desist order by the Director, the securities agency or administrator of another state, or a Canadian province or territory, the Securities Exchange Commission, or the Commodity Futures Trading Commission; or

(E) An order by the Commodity Futures Trading Commission denying, suspending, or revoking registration under the Commodity Exchange Act.

3. Disclosure Document. Application for ULOR registration under Section 7-11-304(c) shall be made by the issuer of the securities by filing with the Department a disclosure document on Form U-7, with Exhibits as required by Part V of the Instructions for Use of Form U-7, and such other documents as are required by Part III(A) of the Instructions for Use of Form U-7.

4. Financial Statements. The financial statements included in the application for ULOR registration shall be in the form provided in Part IV(K) of the Instructions for Use of Form U-7.

5. Debt Service and Preferred Stock. If the offering includes debt securities or preferred stock, the application for registration must include information that demonstrates the ability of the issuer to service its debt or pay the preferred stock dividends.

6. Registration Fee. An application for ULOR registration under this Regulation shall be accompanied by a non-refundable fee as provided in Section 7-11-305.

7. Other requirements. After registration under 7-11-304(c), the Director may require the issuer to file such reports as the Director may deem appropriate or necessary in such manner and form as may be required by the Director.

8. Waiver. The Director may, for good cause shown, waive or modify any of the requirements of this Regulation.

RULE 402(2)-1 FORM OF FILING FOR EXEMPTION

The director hereby specifies that, for purposes of obtaining the exemption under 7-11-402(2), all information, under cover of a letter stating that the information is being filed to apply for the exemption under 7-11-402(2), must be filed with the director in the form required under the Securities Exchange Act of 1934 and rules promulgated thereunder.

RULE 402(3)-1 SECURITIES MANUAL

Unless otherwise provided by rule or order of the Director, this state recognizes the following as nationally recognized securities manuals for the purpose of qualifying for the exemption under Section 7-11-402(3): Fitch Investor Services, Inc., Moody Investor Services, Mergent, Inc., and Standard & Poor's Corp., and their successors and/or assigns.

RULE 402(4)-1 UNSOLICITED ORDER

In order to qualify for the exemption provided under 7-11-402(4), the broker-dealer must obtain from each customer a signed written acknowledgement at the time the purchase price of the securities is paid that the purchase was unsolicited and must retain a copy of each such acknowledgement of a period of five (5) years; provided that no acknowledgement from the customer will be required if the confirmation furnished the customer is clearly marked "Unsolicited Order" or the broker-dealer furnishes the customer at any time before or concurrently with the delivery of the confirmation a memorandum stating that the transaction is based upon an unsolicited order and, in either instance, the customer does not object to the designation of the trade as "unsolicited" within fourteen (14) days of the customer's receipt of the confirmation or memorandum.

RULE 402(18)-1 STATUTORY DISQUALIFICATION

A. No exemption under Section 7-11-402(18) shall be available for the securities of any issuer if any of the parties described in Securities Act of 1933, Regulation A, Rule 230.252 sections (c), (d), (e), or (f):

1. Has filed a registration statement which is the subject of a currently effective registration stop order entered pursuant to any state's securities law within five years prior to the filing of the notice required under this exemption;

2. Has been convicted within five years prior to the filing of the notice required under this exemption of any felony or misdemeanor in connection with the offer, purchase or sale of any security or any felon involving fraud or deceit, including but not limited to forgery, embezzlement, obtaining money under false pretenses, larceny or conspiracy to defraud;

3. Is currently subject to any administrative enforcement order or judgment entered by the director within five years prior to the filing of the notice required under this exemption or is subject to any state's administrative enforcement order or judgment in which fraud or deceit, including but not limited to making any untrue statement of material fact or omitting to state any material fact, was found and the order or judgment was entered within five years prior to the filing of the notice required under this exemption;

4. Is subject to any state's administrative enforcement order or judgment which prohibits, denies or revokes the use of any exemption from registration in connection with the offer, purchase or sale of securities; or

5. Is currently subject to any order, judgment or decree of any court of competent jurisdiction temporarily or preliminary restraining or enjoining, or is subject to any order, judgment or decree of any court of competent jurisdiction, permanently restraining or enjoining, such party from engaging in or continuing any conduct or practice in connection with the purchase of sale of any security or involving the making of any false filing with the state entered within five years prior to the filing of the notice required under the exemption.

B. Disqualification pursuant to paragraphs A.1. through a.5. of this rule may be waived by the director upon a showing of good cause that is not necessary under the circumstances that the exemption be denied.

RULE 403(C) EXEMPTION OF CERTAIN SECURITIES FROM REGISTRATION

The following securities (as that term is defined in Rhode Island General Laws Section 7-11-101(20)) shall be exempt from the registration and filing requirements of Rhode Island General Laws Section 7-11-301 and Section 7-11-404:

(A) All securities which are offered for sale on or through the Internet, the World Wide Web or a similar proprietary or common carrier electronic system (hereinafter collectively referred to as the "Internet"), when all of the following conditions are observed:

(i) The Internet offer of the securities indicate, directly or indirectly, that the securities are not being offered to residents of the State of Rhode Island; and

(ii) The Internet offer of the securities is not specifically directed to any person or persons in the State of Rhode Island by, or on behalf of, the issuer of the securities; and

(iii) No sales of the insurer's securities are made in the State of Rhode Island as a result of the Internet offering until such time as the securities being offered have been properly registered under the terms and provisions of the Rhode Island Uniform Securities Act (the "ACT") and the rules and regulations promulgated thereunder.

This Rule shall not relieve an issuer of securities on the Internet or a person acting behalf of such an issuer from liability under the Act and the rules and regulations promulgated pursuant thereto.

RULE 403(c)-1 EXEMPTION FOR OFFERS AND SALES TO ACCREDITED INVESTORS

Any offer or sale of a security by an issuer in a transaction that meets the requirements of this rule is exempted from Section 7-11-301 and 7-11-404 of the Rhode Island General Laws.

(a) Sales of securities shall be made only to persons who are, or the issuer reasonably believes are, accredited investors. "Accredited investor" is defined as any person who comes within any of the following categories, or who the issuer reasonably believes comes within any of the following categories, at the time of the sale of the securities to that person:

(1) Any bank as defined in Section 3(a)(5)(A) of the Securities Act of 1933 whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to Section 15 of the Securities Exchange Act 0f 1934; any insurance company as defined in section 2(13) of the Securities Act of 1933; any investment company registered under the Investment company Act of 1940 or a business development company as defined in section 2(a)(48) of the Act; any Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small

Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its employees, if such plan ahs total assets in excess of $5,000,000; any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of $5,000,000 or, if a self-directed plan, with investment decision made solely by persons that are accredited investors;

(2) Any private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940;

(3) Any organization described in section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $5,000,000;

(4) Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;

(5) Any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his purchase exceeds $1,000,000;

(6) Any natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

(7) Any trust, with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in §230.506(b)(2)(ii); and

(8) Any entity in which all of the equity owners are accredited investors.

(b) The exemption is not available to an issuer that is in the development stage that either has no specific business plan or purpose or has indicated that its business plan is to engage in a merger or acquisition with an unidentified company or companies, or other entity or person.

(c) The issuer reasonably believes that all purchasers are purchasing for investment and not with the view to or for sale in connection with a distribution of the security. Any resale of a security sold in reliance on this exemption within 12 months of sales shall be presumed to be with a view to distribution and not for investment, except a resale pursuant to a registration statement effective under sections 301 through 305 and 307 or to an accredited investor pursuant to an exemption available under the Rhode Island Uniform Securities Act of 1990.

(d) (1) The exemption is not available to an issuer if the issuer, any of the issuer's predecessors, any affiliated issuer, any of the issuer's directors, officers, general partners, beneficial owners of 10% or more of any class of its equity securities, any of the issuer's promoters presently connected with the issuer in any capacity, any underwriter of the securities to be offered, are any partner, director or officer of such underwriter:

(a) within the last five years, has filed a registration statement which is the subject of a currently effective registration stop order entered by any state securities administrator of the United States Securities and Exchange Commission;

(b) within the last five years, has been convicted of any criminal offense in connection with the offer, purchase or sale of any security or involving fraud or deceit;

(c) is currently subject to any state or federal administrative enforcement order or judgment, entered within the last five years, finding fraud or deceit in connection with the purchase or sale of any security; or

(d) is currently subject to any order, judgment or decree of any court of competent jurisdiction, entered within the last five years, temporarily, preliminarily or permanently restraining or enjoining such party from engaging in or continuing to engage in deceit in connection with the purchase or sale of any security.

(2) Subparagraph (d)(1) shall not apply if:

(a) the party subject to the disqualification is licensed or registered to conduct securities related business in the state in which the order, judgment or decree creating the disqualification was entered against such party;

(b) before the first offer under this exemption, the state securities administrator, or the court or regulatory

authority that entered the order, judgment or decree, waives the disqualification; or

(c) the issuer establishes that it did not know and in the exercise of reasonable care, based on a factual inquiry, could not have known that a disqualification existed under this paragraph.

(e) (1) A general announcement of the proposed offering may be made by any means.

(2) The general announcement shall include only the information, unless additional information is specifically permitted by the Director:

(a) the name, address and telephone number of the issuer of the securities;

(b) the name, a brief description and price (if known) of any security to be issued;

(c) a brief description of the business of the issuer in 25 words or less;

(d) the type, number and aggregate amount of securities being offered;

(e) the name, address and telephone number of the person to contact for additional information; and

(f) A statement that:

(i) sales will only be made to accredited investors;

(ii) no money or other consideration is being solicited or will be accepted by way of this general announcement; and

(iii) the securities have not been registered with or approved by any state securities agency or the U.S. Securities and Exchange Commission and are being offered and sold pursuant to an exemption from registration.

(f) The issuer, in connection with an offer, any provide information in addition to the general announcement under paragraph (e) above, if such information:

(1) is delivered through an electronic database that is restricted to persons who have been prequalified as accredited investors; or

(2) is delivered after the issuer reasonably believes that the prospective purchaser is an accredited investor.

(g) No telephone solicitation shall be permitted unless prior to placing the call, the issuer reasonably believes that the prospective purchaser to be solicited is an accredited investor.

(h) Dissemination of the general announcement of the proposed offering to persons who are not accredited investors shall not disqualify the issuer from claiming the exemption under this rule.

(i) The issuer shall file with the Securities Division a notice of transaction, a consent to service of process, a copy of the general announcement, and a $300 fee within 15 days of the first sale in this state.

RULE 404 CANADIAN SECURITIES EXEMPT FROM REGISTRATION

Offers and sales of any security effected by a broker-dealer who is exempt from licensing under Rule 202(a)-2 are exempt from the registration requirements of Section 7-11-301 and the filing requirements of Section 7-11-404.

RULE 501-1 SENIOR-SPECIFIC CERTIFICATIONS AND PROFESSIONAL DESIGNATIONS

1. The use of a senior specific certification or designation by any person in connection with the offer, sale, or purchase of securities, or the offering of advice as to the value of or the advisability of investing in, purchasing, or selling securities, either directly or indirectly or through publications or writings, or by issuing or promulgating analyses or reports relating to securities, that indicates or implies that the user has special certification or training in advising or servicing senior citizens or retirees, in such a way as to mislead any person shall be a dishonest and unethical practice in the sale of securities as defined in this Regulation. The prohibited use of such certifications or professional designation includes, but is not limited to, the following:

(a) use of a certification or professional designation by a person who has not actually earned or is otherwise ineligible to use such certification or designation;

(b) use of a nonexistent or self-conferred certification or professional designation;

(c) use of a certification or professional designation that indicates or implies a level of occupational qualifications obtained through education, training, or experience that the person using the certification or professional designation does not have; and

(d) use of a certification or professional designation that was obtained from a designating or certifying organization that:

(i) is primarily engaged in the business of instruction in sales and/or marketing;

(ii) does not have reasonable standards or procedures for assuring the competency of its designees or certificants;

(iii) does not have reasonable standards or procedures for monitoring and disciplining its designees or certificants for improper or unethical conduct; or

(iv) does not have reasonable continuing education requirements for its designees or certificants in order to maintain the designation or certificate.

2. There is a rebuttable presumption that a designating or certifying organization is not disqualified solely for purposes of paragraph 1(d) above when the organization has been accredited by:

(i) The American National Standards Institute; or

(ii) The National Commission for Certifying Agencies; or

(iii) an organization that is on the United States Department of Education's list entitled "Accrediting Agencies Recognized for Title IV Purposes" and the designation or credential issued therefrom does not primarily apply to sales and/or marketing.

3. In determining whether a combination of words (or an acronym standing for a combination of words) constitutes a certification or professional designation indicating or implying that a person has special certification or training in advising or servicing senior citizens or retirees, factors to be considered shall include:

(a) use of one or more words such as “senior,” “retirement,” “elder,” or like words, combined with one or more words such as “certified,” “registered,” “chartered,” “adviser,” “specialist,” “consultant,” “planner,” or like words, in the name of the certification or professional designation; and

(b) the manner in which those words are combined.

4. For purposes of this rule, a certification or professional designation does not include a job title within an organization that is licensed or registered by a state or federal financial services regulatory agency, when that job title:

(a) indicates seniority or standing within the organization; or

(b) specifies an individual’s area of specialization within the organization.

For purposes of this subsection, financial services regulatory agency includes, but is not limited to, an agency that regulates broker-dealers, investment advisers, or investment companies as defined under the Investment Company Act of 1940.

5. Nothing in this rule shall limit the Director’s authority to enforce existing provisions of law.

RULE 705(a)(2) SALE OF SECURITIES AT FINANCIAL INSTITUTIONS

A. Applicability

These rules apply exclusively to broker-dealer services conducted by broker-dealers on the premises of a financial institution where retail deposits are taken.

These rules do not alter or abrogate a broker-dealer’s obligations to comply with other applicable laws, rules, or regulations that may govern the operations of broker-dealers and their agents, including but not limited to, supervisory obligations.

B. Definitions

For purposes of these rules, the following terms have the meanings indicated:

(1) “Financial institution” means federal and state chartered banks, savings and loan associations, savings banks, credit unions, and the service corporations of such institutions located in Rhode Island.

(2) “Networking arrangements” means a contractual or other agreement between a broker-dealer and a financial institution pursuant to which the broker-dealer conducts broker-dealer services on the premises of such financial institution where retail deposits are taken.

(3) "Broker-dealer services" means the investment banking or securities business as defined in paragraph (p) of Article 1 of the By-Laws of the Financial Industry Regulatory Authority, Inc.

C. Standards For Broker-Dealer Conduct

No broker-dealer shall conduct broker-dealer services on the premises of a financial institution where retail deposits are taken unless the broker-dealer complies initially and continually with the following requirements:

(1) Setting

Wherever practical, broker-dealer services shall be located in a physical location distinct from the area in which the financial institution's retail deposits are taken. In those situations where there is sufficient space to allow separate area, the broker-dealer has a heightened responsibility to distinguish its services form those of the financial institution. In all situations, the broker-dealer shall identify its services in a manner that clearly distinguishes those services from the financial institution's retail deposit –taking activities. The broker-dealer's name shall be clearly displayed in the areas in which the broker-dealer conducts its services.

(2) Networking Arrangements

Networking arrangements shall be governed by a written agreement that sets forth the responsibilities of the parties and the compensation arrangements. Networking arrangements must provide that supervisory personnel of the broker-dealer and representatives of state securities authorities, where authorized by state law will be permitted access to the financial institution's premises where the broker-dealer conducts broker-dealer services in order to inspect the books and records and other relevant information maintained by the broker-dealer with respect to its broker-dealer services. Management of the broker-dealer shall be responsible for ensuring that the networking responsibilities of all parties, including those of financial institution personnel.

(3) Customer Disclosure and Written Acknowledgement

(a) At or prior to the time that a customer's securities brokerage account is opened by a broker-dealer on the premises of a financial institution where retain deposits are taken, the broker-dealer shall:

(i) disclose, orally and in writing, that the securities products purchased or sold in a transaction with the broker-dealer:

(A) are not insured by the Federal Deposit Insurance Corporation ("FDIC");

(B) obligations of the financial institution and are not guaranteed by the financial institution; and

(C) are subject to investment risks, including possible loss of the principal invested.

(ii) make reasonable efforts to obtain from each customer during the account opening process a written acknowledgement of the disclosures required by paragraph (C)(3)(a)(i).

(b) If broker-dealer services include any written or oral representations concerning insurance coverage, other than FDIC insurance coverage, then clear and accurate written or oral explanations of the coverage must also be provided to the customers when such representations are first made.

(4) Communications With The Public

(a) (i) All of the broker-dealer's confirmations and account statements must indicate clearly that the broker-dealer services are provided by the broker-dealer.

(ii) Advertisements and sales literature that announce the location of a financial institution where broker-dealer services are provided by the broker-dealer, or that are distributed by the broker-dealer on the premises of a financial institution, must disclose that securities products: are not insured by the FDIC; are not deposits or other obligations of the financial institution and are not guaranteed by the financial institution; and are subject to investment risks, including possible loss of the principal invested. The shorter, logo format described in paragraph (c)(4)(b)(i) may be used to provide these disclosures.

(iii) Recommendations by a broker-dealer concerning non-deposit investment products with a name similar to that of a financial institution must only occur pursuant to policies and procedures reasonable designed to minimize risk of customer confusion.

(b) (i) The following shorter, logo format disclosure may be used by a broker-dealer in advertisements and sales literature, including material published, or designed for use, in radio or

television broadcasts, Automatic Teller Machine ("ATM") screens, billboards, signs, posters and brochures, to comply with the requirements of paragraph (C)(4)(a)(ii), provided that such disclosures are displayed in a conspicuous manner

(a) Not FDIC Insured

(b) No Bank Guarantee

(c) May Lose Value

(ii) As long as the omission of the disclosures required by paragraph (C)(4)(a)(ii) would not cause the advertisement or sales literature to be misleading in light of the context in which the material is presented, such disclosures are not required with respect to messages contained in:

(a) radio broadcasts of 30 seconds or less

(b) electronic signs, including billboard-type signs that are electronic, time, and temperature signs and ticker tape signs, but excluding messages contained in media such as television, on line computer services, or ATMs; and

(c) signs, such as banners and posters, when only used as location indicators.

(5) Notification Of Termination

The broker-dealer must promptly notify the financial institution if any agent of the broker-dealer who is employed by the financial institution is terminated of cause by the broker-dealer.

RULE 708(A)-1 CONSENT TO SERVICE OF PROCESS

Unless otherwise provided by rule or order of the director, the Uniform Consent to Service of Process (Form U-2) satisfies the requirements of Chapter 7, Title 11.

RULE 709(D)-1 FEES

1. Documents (per page), $.50

2. Certification, $1.00

Section 5. ***<u>Effective date</u>***

This Regulation shall be effective twenty (20) days from the date of filing with the Secretary of State.

AMENDED: June 27, 2004
AMENDED: June 15, 2010
AMENDED: January 14, 2011