

2010 Edition

# Securities Regulation

*Selected Statutes, Rules and Forms*

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Thomas Lee Hazen

**WEST**<sup>®</sup>

# SECURITIES REGULATION

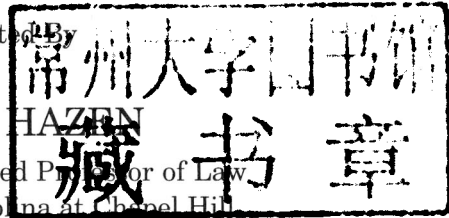
## SELECTED STATUTES, RULES AND FORMS

2010 EDITION

Selected and Edited By

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## PREFACE

This book, containing the full text of the basic federal securities laws, as well as the principal SEC rules and forms under those laws and other related laws and regulations, is designed primarily as a supplement to the texts used in law school courses in securities regulation. However, it can also serve as a basic reference source for lawyers, securities professionals, corporate officers and others who have occasion to deal with questions of securities law.

This book contains the full text of the Securities Act of 1933, the Securities Exchange Act of 1934, the Sarbanes–Oxley Act of 2002, the Investment Company Act of 1940, and the Investment Advisers Act of 1940. It also contains the full text of most rules of general applicability and the principal forms under the 1933 and 1934 Acts and selected rules under the 1940 Acts, as well as the SEC’s Rules of Practice, Rules on Informal and Other Procedures, Rules Relating to Investigations, and the attorney conduct rules.

In addition to the SEC materials, the book contains the pertinent provisions of a number of other statutes relevant to securities questions, including the Mail Fraud Statutes, the Foreign Corrupt Practices Act, the Racketeer Influenced and Corrupt Organizations Act (RICO), the Commodity Exchange Act, and the Bankruptcy Reform Act of 1978. It also contains a comprehensive Index to facilitate its use as a research tool.

This edition incorporates all changes through October 1, 2009. It is the intention of the editor to update it annually at the same time, thus making it the most up-to-date reference work for winter and spring term courses in securities regulation.

I hope you will find this volume useful, and I welcome your comments or suggestions for improvement.

THOMAS LEE HAZEN  
Chapel Hill, N.C.

October 8, 2009

**SECURITIES  
REGULATION  
SELECTED STATUTES,  
RULES AND FORMS**

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# SUMMARY OF CONTENTS

	Citation	Page
PREFACE-----		III
I. FEDERAL SECURITIES LAWS AND REGULATIONS-----		1
A. Securities Act of 1933-----	(15 USCA § 77. __)	1
Rules and Regulations Under Securities Act of 1933-----	(17 CFR § 230. __)	46
Selected Forms Under Securities Act of 1933-----	(17 CFR § 239. __)	238
B. Disclosure Guides-----		368
Regulation S–K—General Rules-----	(17 CFR § 229. __)	368
Regulation G-----	(17 CFR § 244. __)	549
Regulation S–X—Qualifications and Reports of Accountants-----	(17 CFR § 210. __)	552
C. SEC Procedural Rules-----		567
Rules of Practice-----	(17 CFR § 201. __)	567
Informal and Other Procedures-----	(17 CFR § 202. __)	641
Rules Relating to Investigations-----	(17 CFR § 203. __)	649
D. Standards of Professional Conduct for Attorneys Appearing and Practicing Before the Commission in the Representation of an Issuer-----	(17 CFR § 205. __)	652
E. Securities Exchange Act of 1934, Selected Rules, and Forms-----	(15 USCA § 78. __)	660
Sarbanes–Oxley Act of 2002-----		892
Selected Rules and Regulations Under Securities Exchange Act of 1934-----	(17 CFR § 240. __)	942
Selected Forms Under the Securities Exchange Act of 1934-----	(17 CFR § 249. __)	1328
Selected Schedules Under the Securities Exchange Act of 1934-----	(17 CFR § 240. __)	1412
F. Other Selected Regulations-----		1485
Regulation M-----	(17 CFR § 242. __)	1486
Regulation SHO-----	(17 CFR § 242. __)	1499
Regulation ATS—Alternative Trading Systems-----	(17 CFR § 242. __)	1506
Customer Margin Requirements for Security Futures-----	(17 CFR § 242. __)	1515
Regulation AC—Analyst Certification-----	(17 CFR § 242. __)	1525
Regulation NMS—Regulation of the National Market System-----	(17 CFR § 242. __)	1529
Regulation F–D: Selective Disclosure-----	(17 CFR § 243. __)	1557
Regulation BTR: Blackout Trading Restriction-----	(17 CFR § 245. __)	1561
Regulation R: Exemptions and Definitions Related to the Exceptions for Banks From the Definition of Broker-----	(17 CFR § 247. __)	1569
Regulation S–P: Privacy of Consumer Financial Information-----	(17 CFR § 248. __)	1588
G. Investment Company Act of 1940 and Selected Rules-----	(15 USCA § 80a. __)	1615
Selected Rules and Regulations Under Investment Company Act of 1940-----	(17 CFR § 270. __)	1714
H. Investment Advisers Act of 1940 and Selected Rules-----	(15 USCA § 80b. __)	1790
Selected Rules and Regulations Under Investment Advisers Act of 1940-----	(17 CFR § 275. __)	1815

---

II. RELATED LAWS AND REGULATIONS-----	1837
Mail and Wire Fraud Statutes -----(18 USCA §§ 1341 through 1346; 1348) ----	1837
Racketeer Influenced and Corrupt Organizations Act-----	(18 USCA §§ 1961 through 1968)----- 1840
Commodity Exchange Act-----	(7 USCA §§ 1a through 25)----- 1852
Bankruptcy Act-----	(11 USCA §§ 364; 1125; 1145)----- 1907
<b>Index</b> -----	1913

# I. FEDERAL SECURITIES LAWS AND REGULATIONS

## A. SECURITIES ACT OF 1933, RULES, AND SELECTED FORMS

15 U.S.C.A. § 77a et seq.

### TITLE I

	Section		Page
	15		
Act	U.S.C.A.		
1	77a	Short Title . . . . .	2
2	77b	Definitions . . . . .	2
2A	77b-1	Swap Agreements . . . . .	5
3	77c	Exempted Securities . . . . .	5
4	77d	Exempted Transactions . . . . .	9
5	77e	Prohibitions Relating to Interstate Commerce and the Mails . . . . .	10
6	77f	Registration of Securities and Signing of Registration Statement . . . . .	11
7	77g	Information Required in Registration Statement . . . . .	13
8	77h	Taking Effect of Registration Statements and Amend- ments Thereto . . . . .	14
8A	77h-1	Cease and Desist Proceedings . . . . .	15
9	77i	Court Review of Orders . . . . .	17
10	77j	Information Required in Prospectus . . . . .	17
11	77k	Civil Liabilities on Account of False Registration State- ment . . . . .	18
12	77l	Civil Liabilities Arising in Connection With Prospec- tuses and Communications . . . . .	21
13	77m	Limitation of Actions . . . . .	22
14	77n	Contrary Stipulations Void . . . . .	22
15	77o	Liability of Controlling Persons . . . . .	22
16	77p	Additional Remedies; Limitation on Remedies . . . . .	22
17	77q	Fraudulent Interstate Transactions . . . . .	24
18	77r	Exemption From State Regulation of Securities Offer- ings . . . . .	25
18A	77r-1	Preemption of State Law . . . . .	27
19	77s	Special Powers of Commission . . . . .	29
20	77t	Injunctions and Prosecution of Offenses . . . . .	31
21	77u	Hearings by Commission . . . . .	33
22	77v	Jurisdiction of Offenses and Suits . . . . .	33
23	77w	Unlawful Representations . . . . .	33
24	77x	Penalties . . . . .	34



## 1933 ACT

	<b>Section</b>		<b>Page</b>
	<b>15</b>		
<b>Act</b>	<b>U.S.C.A.</b>		
25	77y	Jurisdiction of Other Government Agencies Over Securities .....	34
26	77z	Separability of Provisions .....	34
27	77z-1	Private Securities Litigation .....	34
27A	77z-2	Application of Safe Harbor for Forward-Looking Statements .....	38
28	77z-3	General Exemptive Authority .....	41
		<b>SCHEDULE OF INFORMATION REQUIRED IN REGISTRATION STATEMENT</b>	
Schedule A		.....	41

## TITLE I

### Short Title

**Sec. 1.** This Act may be cited as the Securities Act of 1933.

### Definitions

**Sec. 2.** (a) When used in this Act, unless the context otherwise requires—

(1) The term “security” means any note, stock, treasury stock, security future, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a “security,” or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

(2) The term “person” means an individual, a corporation, a partnership, an association, a joint-stock company, a trust, any unincorporated organization, or a government or political subdivision thereof. As used in this paragraph the term “trust” shall include only a trust where the interest or interests of the beneficiary or beneficiaries are evidenced by a security.

(3) The term “sale” or “sell” shall include every contract of sale or disposition of a security or interest in a security, for value. The term “offer to sell”, “offer for sale”, or “offer” shall include every attempt or offer to dispose of, or solicitation of an offer to buy, a security or interest in a security, for value. The terms defined in this paragraph and the term “offer to buy” as used in subsection (c) of section 5 shall not include preliminary negotiations or agreements between an issuer (or any person directly or indirectly controlling or controlled by an issuer, or under direct or indirect common control with an issuer) and any underwriter or among underwriters who are or are to be in privity of contract with an issuer (or any person directly or indirectly controlling or controlled by an issuer, or under direct or indirect common control with an issuer). Any security given or delivered with, or

as a bonus on account of, any purchase of securities or any other thing, shall be conclusively presumed to constitute a part of the subject of such purchase and to have been offered and sold for value. The issue or transfer of a right or privilege, when originally issued or transferred with a security, giving the holder of such security the right to convert such security into another security of the same issuer or of another person, or giving a right to subscribe to another security of the same issuer or of another person, which right cannot be exercised until some future date, shall not be deemed to be an offer or sale of such other security; but the issue or transfer of such other security upon the exercise of such right of conversion or subscription shall be deemed a sale of such other security. Any offer or sale of a security futures product by or on behalf of the issuer of the securities underlying the security futures product, an affiliate of the issuer, or an underwriter, shall constitute a contract for sale of, sale of, offer for sale, or offer to sell the underlying securities.

(4) The term "issuer" means every person who issues or proposes to issue any security; except that with respect to certificates of deposit, voting-trust certificates, or collateral-trust certificates, or with respect to certificates of interest or shares in an unincorporated investment trust not having a board of directors (or persons performing similar functions) or of the fixed, restricted management, or unit type, the term "issuer" means the person or persons performing the acts and assuming the duties of depositor or manager pursuant to the provisions of the trust or other agreement or instrument under which such securities are issued; except that in the case of an unincorporated association which provides by its articles for limited liability of any or all of its members, or in the case of a trust, committee, or other legal entity, the trustees or members thereof shall not be individually liable as issuers of any security issued by the association, trust, committee, or other legal entity; except that with respect to equipment-trust certificates or like securities, the term "issuer" means the person by whom the equipment or property is or is to be used; and except that with respect to fractional undivided interests in oil, gas, or other mineral rights, the term "issuer" means the owner of any such right or of any interest in such right (whether whole or fractional) who creates fractional interests therein for the purpose of public offering.

(5) The term "Commission" means the Securities and Exchange Commission.

(6) The term "Territory" means Puerto Rico, the Virgin Islands, and the insular possessions of the United States.

(7) The term "interstate commerce" means trade or commerce in securities or any transportation or communication relating thereto among the several States or between the District of Columbia or any Territory of the United States and any State or other Territory, or between any foreign country and any State, Territory, or the District of Columbia, or within the District of Columbia.

(8) The term "registration statement" means the statement provided for in section 6, and includes any amendment thereto and any report, document, or memorandum filed as part of such statement or incorporated therein by reference.

(9) The term "write" or "written" shall include printed, lithographed, or any means of graphic communication.

(10) The term "prospectus" means any prospectus, notice, circular, advertisement, letter, or communication, written or by radio or television, which offers any security for sale or confirms the sale of any security; except that (a) a communication sent or given after the effective date of the registration statement (other than a prospectus permitted under

subsection (b) of section 10) shall not be deemed a prospectus if it is proved that prior to or at the same time with such communication a written prospectus meeting the requirements of subsection (a) of section 10 at the time of such communication was sent or given to the person to whom the communication was made, and (b) a notice, circular, advertisement, letter, or communication in respect of a security shall not be deemed to be a prospectus if it states from whom a written prospectus meeting the requirements of section 10 may be obtained and, in addition, does no more than identify the security, state the price thereof, state by whom orders will be executed, and contain such other information as the Commission, by rules or regulations deemed necessary or appropriate in the public interest and for the protection of investors, and subject to such terms and conditions as may be prescribed therein, may permit.

(11) The term “underwriter” means any person who has purchased from an issuer with a view to, or offers or sells for an issuer in connection with, the distribution of any security, or participates or has a direct or indirect participation in any such undertaking, or participates or has a participation in the direct or indirect underwriting of any such undertaking; but such term shall not include a person whose interest is limited to a commission from an underwriter or dealer not in excess of the usual and customary distributors’ or sellers’ commission. As used in this paragraph the term “issuer” shall include, in addition to an issuer, any person directly or indirectly controlling or controlled by the issuer, or any person under direct or indirect common control with the issuer.

(12) The term “dealer” means any person who engages either for all or part of his time, directly or indirectly, as agent, broker, or principal, in the business of offering, buying, selling, or otherwise dealing or trading in securities issued by another person.

(13) The term “insurance company” means a company which is organized as an insurance company, whose primary and predominant business activity is the writing of insurance or the reinsuring of risks underwritten by insurance companies, and which is subject to supervision by the insurance commissioner, or a similar official or agency of a State or territory or the District of Columbia; or any receiver or similar official or any liquidating agent for such company, in his capacity as such.

(14) The term “separate account” means an account established and maintained by an insurance company pursuant to the laws of any State or territory of the United States, the District of Columbia, or of Canada or any province thereof, under which income, gains and losses, whether or not realized, from assets allocated to such account, are, in accordance with the applicable contract, credited to or charged against such account without regard to other income, gains or losses of the insurance company.

(15) The term “accredited investor” shall mean—

(i) a bank as defined in section 3(a)(2) whether acting in its individual or fiduciary capacity; an insurance company as defined in paragraph 13 of the Act; an investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that Act; a Small Business Investment Company licensed by the Small Business Administration; or an employee benefit plan, including an individual retirement account, which is subject to the provisions 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 Act, which is either a bank, insurance company, or registered investment adviser; or

(ii) any person who, on the basis of such factors as financial sophistication, net worth, knowledge, and experience in financial matters, or amount of assets under management qualifies as an accredited investor under rules and regulations which the Commission shall prescribe.

(16) The terms “security future”, “narrow-based security index”, and “security futures product” have the same meanings as provided in section 3(a)(55) of the Securities Exchange Act of 1934.

(b) Whenever pursuant to this title the Commission is engaged in rulemaking and is required to consider or determine whether an action is necessary or appropriate in the public interest, the Commission shall also consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation.

### Swap Agreements

**Sec. 2A.** (a) The definition of “security” in section 2(a)(1) of this Act does not include any non-security-based swap agreement (as defined in section 206C of the Gramm–Leach–Bliley Act).

(b)(1) The definition of “security” in section 2(a)(1) of this Act does not include any security-based swap agreement (as defined in section 206B of the Gramm–Leach–Bliley Act).

(2) The Commission is prohibited from registering, or requiring, recommending, or suggesting, the registration under this Act of any security-based swap agreement (as defined in section 206B of the Gramm–Leach–Bliley Act). If the Commission becomes aware that a registrant has filed a registration statement with respect to such a swap agreement, the Commission shall promptly so notify the registrant. Any such registration statement with respect to such a swap agreement shall be void and of no force or effect.

(3) The Commission is prohibited from—

- (A) promulgating, interpreting, or enforcing rules; or
- (B) issuing orders of general applicability;

under this Act in a manner that imposes or specifies reporting or recordkeeping requirements, procedures, or standards as prophylactic measures against fraud, manipulation, or insider trading with respect to any security-based swap agreement (as defined in section 206B of the Gramm–Leach–Bliley Act).

(4) References in this Act to the “purchase” or “sale” of a security-based swap agreement shall be deemed to mean the execution, termination (prior to its scheduled maturity date), assignment, exchange, or similar transfer or conveyance of, or extinguishing of rights or obligations under, a security-based swap agreement (as defined in section 206B of the Gramm–Leach–Bliley Act), as the context may require.

### Exempted Securities

**Sec. 3.** (a) Except as hereinafter expressly provided, the provisions of this Act shall not apply to any of the following classes of securities:

(1) Reserved.

(2) Any security issued or guaranteed by the United States or any territory thereof, or by the District of Columbia, or by any State of the United States, or by any political subdivision of a State or Territory, or by any public instrumentality of one or more States or Territories,

or by any person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States; or any certificate of deposit for any of the foregoing; or any security issued or guaranteed by any bank; or any security issued by or representing an interest in or a direct obligation of a Federal Reserve bank; or any interest or participation in any common trust fund or similar fund that is excluded from the definition of the term "investment company" under Section 3(c)(3) of the Investment Company Act of 1940; or any security which is an industrial development bond (as defined in section 103(c)(2) of the Internal Revenue Code of 1954) the interest on which is excludable from gross income under section 103(a)(1) of such Code if, by reason of the application of paragraph (4) or (6) of section 103(c) of such Code (determined as if paragraphs (4)(A), (5), and (7) were not included in such section 103(c)), paragraph (1) of such section 103(c) does not apply to such security; or any interest or participation in a single trust fund, or in a collective trust fund maintained by a bank, or any security arising out of a contract issued by an insurance company, which interest, participation, or security is issued in connection with (A) a stock bonus, pension, or profit-sharing plan which meets the requirements for qualification under section 401 of the Internal Revenue Code of 1954, (B) an annuity plan which meets the requirements for the deduction of the employer's contributions under section 404(a)(2) of such Code, (C) a governmental plan as defined in section 414(d) of such Code which has been established by an employer for the exclusive benefit of its employees or their beneficiaries for the purpose of distributing to such employees or their beneficiaries the corpus and income of the funds accumulated under such plan, if under such plan it is impossible, prior to the satisfaction of all liabilities with respect to such employees and their beneficiaries, for any part of the corpus or income to be used for, or diverted to, purposes other than the exclusive benefit of such employees or their beneficiaries, or (D) a church plan, company, or account that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940, other than any plan described in clause (A), (B), or (C) of this paragraph (i) the contributions under which are held in a single trust fund or in a separate account maintained by an insurance company for a single employer and under which an amount in excess of the employer's contribution is allocated to the purchase of securities (other than interests or participations in the trust or separate account itself) issued by the employer or any company directly or indirectly controlling, controlled by, or under common control with the employer, (ii) which covers employees some or all of whom are employees within the meaning of section 401(c)(1) of such Code, or (iii) which is a plan funded by an annuity contract described in section 403(b) of such Code. The Commission, by rules and regulations or order, shall exempt from the provisions of section 5 of this title any interest or participation issued in connection with a stock bonus, pension, profit-sharing, or annuity plan which covers employees some or all of whom are employees within the meaning of section 401(c)(1) of the Internal Revenue Code of 1954, if and to the extent that the Commission determines this to be necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of this Act. For the purposes of this paragraph, a security issued or guaranteed by a bank shall not include any interest or participation in any collective trust fund maintained by a bank; and the term "bank" means any national bank, or any banking institution organized under the laws of any State, territory, or the District of Columbia, the business of which is substantially confined to banking and is supervised by the State or territorial banking commission or similar official; except that in the case of a common trust fund or similar fund, or a collective

trust fund, the term “bank” has the same meaning as in the Investment Company Act of 1940;

(3) Any note, draft, bill of exchange, or banker’s acceptance which arises out of a current transaction or the proceeds of which have been or are to be used for current transactions, and which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited;

(4) Any security issued by a person organized and operated exclusively for religious, educational, benevolent, fraternal, charitable, or reformatory purposes and not for pecuniary profit, and no part of the net earnings of which inures to the benefit of any person, private stockholder, or individual; or any security of a fund that is excluded from the definition of an investment company under section 3(c)(10)(B) of the Investment Company Act of 1940;

(5) Any security issued (A) by a savings and loan association, building and loan association, cooperative bank, homestead association, or similar institution, which is supervised and examined by State or Federal authority having supervision over any such institution; or (B) by (i) a farmer’s cooperative organization exempt from tax under section 521 of the Internal Revenue Code of 1954, (ii) a corporation described in section 501(c)(16) of such Code and exempt from tax under section 501(a) of such Code, or (iii) a corporation described in section 501(c)(2) of such Code which is exempt from tax under section 501(a) of such Code and is organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization or corporation described in clause (i) or (ii);

(6) Any interest in a railroad equipment trust. For purposes of this paragraph “interest in a railroad equipment trust” means any interest in an equipment trust, lease, conditional sales contract or other similar arrangement entered into, issued, assumed, guaranteed by, or for the benefit of, a common carrier to finance the acquisition of rolling stock, including motive power;

(7) Certificates issued by a receiver or by a trustee or debtor in possession in a case under Title 11 of the United States Code, with the approval of the court;

(8) Any insurance or endowment policy or annuity contract or optional annuity contract, issued by a corporation subject to the supervision of the insurance commissioner, bank commissioner, or any agency or officer performing like functions, of any State or Territory of the United States or the District of Columbia;

(9) Except with respect to a security exchanged in a case under Title 11 of the United States Code, any security exchanged by the issuer with its existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting such exchange;

(10) Except with respect to a security exchanged in a case under Title 11 of the United States Code, any security which is issued in exchange for one or more bona fide outstanding securities, claims or property interests, or partly in such exchange and partly for cash, where the terms and conditions of such issuance and exchange are approved, after a hearing upon the fairness of such terms and conditions at which all persons to whom it is proposed to issue securities in such exchange shall have the right to appear, by any court, or by any official or agency of the United States, or by any State or Territorial banking or insurance commission or other governmental authority expressly authorized by law to grant such approval;

## Sec. 3

## 1933 ACT

(11) Any security which is a part of an issue offered and sold only to persons resident within a single State or Territory, where the issuer of such security is a person resident and doing business within, or, if a corporation, incorporated by and doing business within, such State or Territory;

(12) Any equity security issued in connection with the acquisition by a holding company of a bank under section 3(a) of the Bank Holding Company Act of 1956 or a savings association under section 10(e) of the Home Owners' Loan Act, if—

(A) the acquisition occurs solely as part of a reorganization in which security holders exchange their shares of a bank or savings association for shares of a newly formed holding company with no significant assets other than securities of the bank or savings association and the existing subsidiaries of the bank or savings association;

(B) the security holders receive, after that reorganization, substantially the same proportional share interests in the holding company as they held in the bank or savings association, except for nominal changes in shareholders' interests resulting from lawful elimination of fractional interests and the exercise of dissenting shareholders' rights under State or Federal law;

(C) the rights and interests of security holders in the holding company are substantially the same as those in the bank or savings association prior to the transaction, other than as may be required by law; and

(D) the holding company has substantially the same assets and liabilities, on a consolidated basis, as the bank or savings association had prior to the transaction.

For purposes of this paragraph, the term "savings association" means a savings association (as defined in section 3(b) of the Federal Deposit Insurance Act) the deposits of which are insured by the Federal Deposit Insurance Corporation.

(13) Any security issued by or any interest or participation in any church plan, company or account that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940.

(14) Any security futures product that is—

(A) cleared by a clearing agency registered under section 17A of the Securities Exchange Act of 1934 or exempt from registration under subsection (b)(7) of such section 17A; and

(B) traded on a national securities exchange or a national securities association registered pursuant to section 15A(a) of the Securities Exchange Act of 1934.

(b) The Commission may from time to time by its rules and regulations, and subject to such terms and conditions as may be prescribed therein, add any class of securities to the securities exempted as provided in this section, if it finds that the enforcement of this Act with respect to such securities is not necessary in the public interest and for the protection of investors by reason of the small amount involved or the limited character of the public offering; but no issue of securities shall be exempted under this subsection where the aggregate amount at which such issue is offered to the public exceeds \$5,000,000.

(c) The Commission may from time to time by its rules and regulations and subject to such terms and conditions as may be prescribed therein, add to the securities exempted as provided in this section any class of securities issued by a small business investment company under the Small Business Investment Act of 1958 if it finds, having regard to the purposes of that Act, that

the enforcement of this Act with respect to such securities is not necessary in the public interest and for the protection of investors.

### Exempted Transactions

**Sec. 4.** The provisions of section 5 shall not apply to—

- (1) transactions by any person other than an issuer, underwriter, or dealer.
- (2) transactions by an issuer not involving any public offering.
- (3) transactions by a dealer (including an underwriter no longer acting as an underwriter in respect of the security involved in such transaction), except—

(A) transactions taking place prior to the expiration of forty days after the first date upon which the security was bona fide offered to the public by the issuer or by or through an underwriter,

(B) transactions in a security as to which a registration statement has been filed taking place prior to the expiration of forty days after the effective date of such registration statement or prior to the expiration of forty days after the first date upon which the security was bona fide offered to the public by the issuer or by or through an underwriter after such effective date, whichever is later (excluding in the computation of such forty days any time during which a stop order issued under section 8 is in effect as to the security), or such shorter period as the Commission may specify by rules and regulations or order, and

(C) transactions as to securities constituting the whole or a part of an unsold allotment to or subscription by such dealer as a participant in the distribution of such securities by the issuer or by or through an underwriter.

With respect to transactions referred to in clause (B), if securities of the issuer have not previously been sold pursuant to an earlier effective registration statement the applicable period, instead of forty days, shall be ninety days, or such shorter period as the Commission may specify by rules and regulations or order.

(4) brokers' transactions executed upon customers' orders on any exchange or in the over-the-counter market but not the solicitation of such orders.

(5)(A) Transactions involving offers or sales of one or more promissory notes directly secured by a first lien on a single parcel of real estate upon which is located a dwelling or other residential or commercial structure, and participation interests in such notes—

(i) where such securities are originated by a savings and loan association, savings bank, commercial bank, or similar banking institution which is supervised and examined by a Federal or State authority, and are offered and sold subject to the following conditions:

(a) the minimum aggregate sales price per purchaser shall not be less than \$250,000;

(b) the purchaser shall pay cash either at the time of the sale or within sixty days thereof; and

(c) each purchaser shall buy for his own account only; or

(ii) where such securities are originated by a mortgagee approved by the Secretary of Housing and Urban Development pursuant to sections 203 and 211 of the National Housing Act, and are offered or sold subject to the three conditions specified in subpara-



graph (A)(i) to any institution described in such subparagraph or to any insurance company subject to the supervision of the insurance commissioner, or any agency or officer performing like function, of any State or Territory of the United States or the District of Columbia, or the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, or the Government National Mortgage Association.

(B) Transactions between any of the entities described in subparagraph (A)(i) or (A)(ii) hereof involving non-assignable contracts to buy or sell the foregoing securities which are to be completed within two years, where the seller of the foregoing securities pursuant to any such contract is one of the parties described in subparagraph (A)(i) or (A)(ii) who may originate such securities and the purchaser of such securities pursuant to any such contract is any institution described in subparagraph (A)(i) or any insurance company described in subparagraph (A)(ii), the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, or the Government National Mortgage Association and where the foregoing securities are subject to the three conditions for sale set forth in subparagraphs (A)(i)(a) through (c).

(C) The exemption provided by subparagraphs (A) and (B) hereof shall not apply to resales of the securities acquired pursuant thereto, unless each of the conditions for sale contained in subparagraphs (A)(i)(a) through (c) are satisfied.

(6) transactions involving offers or sales by an issuer solely to one or more accredited investors, if the aggregate offering price of an issue of securities offered in reliance on this paragraph does not exceed the amount allowed under section 3(b) of this Act, if there is no advertising or public solicitation in connection with the transaction by the issuer or anyone acting on the issuer's behalf, and if the issuer files such notice with the Commission as the Commission shall prescribe.

### **Prohibitions Relating to Interstate Commerce and the Mails**

**Sec. 5.** (a) Unless a registration statement is in effect as to a security, it shall be unlawful for any person, directly or indirectly—

(1) to make use of any means or instruments of transportation or communication in interstate commerce or of the mails to sell such security through the use or medium of any prospectus or otherwise; or

(2) to carry or cause to be carried through the mails or in interstate commerce, by any means or instruments of transportation, any such security for the purpose of sale or for delivery after sale.

(b) It shall be unlawful for any person, directly or indirectly—

(1) to make use of any means or instruments of transportation or communication in interstate commerce or of the mails to carry or transmit any prospectus relating to any security with respect to which a registration statement has been filed under this Act, unless such prospectus meets the requirements of section 10; or

(2) to carry or cause to be carried through the mails or in interstate commerce any such security for the purpose of sale or for delivery after sale, unless accompanied or preceded by a prospectus that meets the requirements of subsection (a) of section 10.

(c) It shall be unlawful for any person, directly or indirectly, to make use of any means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell or offer to buy through the use or medium of any prospectus or otherwise any security,