

ANNUAL REPORT
OF THE
Banking Commissioner

OF THE
STATE OF CONNECTICUT



FOR THE YEAR ENDED DECEMBER 31, 1983

BRIAN J. WOOLF
BANKING COMMISSIONER

HOWARD B. BROWN
DEPUTY BANKING COMMISSIONER

State Office Building, Hartford, Connecticut 06106

SECURITIES AND BUSINESS INVESTMENTS DIVISION

The Securities and Business Investments Division is responsible for the following areas subject to the general supervision of the Banking Commissioner: 1) the registration of Tender Offers, Securities and Business Opportunity programs for sale in Connecticut; 2) Broker-Dealer and Investment Adviser and Agent registration; 3) routine examinations of Broker-Dealer and Investment Adviser registrants; and 4) enforcement of the Tender Offer, Securities and Business Opportunity laws.

As of year-end 1983, the division was comprised of a division director, a director of enforcement, eleven examiners, two Connecticut Careers Trainees and thirteen support personnel.

Activities

Jurisdiction of the Banking Commissioner over the Tender Offer, Securities and Business Opportunity laws emanates from Chapters 661a, 662 and 662a of the General Statutes, respectively.

In connection with the securities and business opportunity laws, as of the year-end 1983, 23,833 persons were registered to engage in selling securities and to offer advice and management services regarding investments in securities. This represents a 20% increase over the number of registrants in 1982. Fifty-five percent of those registered were engaged in the general brokerage business. (See Tables Numbered 51, 52, 52a and 53.)

In 1983, 3,975 registration statements of issuers of securities prior to their sale in Connecticut were received. Thirty-six registrations by sellers of business opportunity programs were received. Fifteen business opportunity registrations were renewed. There were no tender offers registered during 1983. (See Table No. 55.)

During 1983, 231 securities complaints and 4 business opportunity complaints were processed. Also, during 1983, 22 routine broker-dealer and 4 investment adviser examinations were undertaken. One hundred eighty-eight securities and 11 business opportunity investigations were initiated. Seven cease and desist orders were issued in the securities areas compared to a total of 9 the previous year. One securities matter was referred for criminal action. (See Table No. 56.) Of all the complaints processed and investigations opened, most were resolved on the administrative level prior to their closure. Many of such administrative resolutions took the form of requiring those believed to be violating the law to offer rescissions to investors, to submit affidavits that no business would be conducted in Connecticut until properly registered or exempt from registration under the securities or business opportunity laws, to enter into consent agreements, or a combination of the foregoing.

In 1983, Counsel to the Banking Commissioner issued 3,159 interpretive opinions and exemption acknowledgements in the area of securities and 41 in the area of business opportunities. (See Table No. 57.)

Legislation

In 1983, Chapter 662 of the Connecticut General Statutes, the Connecticut Uniform Securities Act, was amended by P.A. 83-368 which took effect on May 26, 1983. P.A. 83-368 made certain changes to the definitional, registration and exemptive provisions of Chapter 662, including:

- 1) An amendment to Section 36-471(b) of the Act which removed the exclusion from the "agent" definition for persons representing an issuer in effecting transactions exempted by Section 36-490(b)(9) of the Act.
- 2) An amendment to the definition of "broker-dealer" found in Section 36-471(c) of the Act which removed the exclusion for persons with no place of business in Connecticut who do not direct more than 15 offers to sell or buy into Connecticut during any period of 12 consecutive months.
- 3) An amendment to the definition of "investment adviser agent" found in Section 36-471(g) of the Act which removed the exclusion for partners of an investment adviser.
- 4) An amendmant to Section 36-474(c) which removed the requirement that offers or sales regarding oil, gas or mining limited partnerships, or certificates of interest or participation in oil, gas or mining titles or leases, or in payments out of production under such titles or leases be effected through a Connecticut-registered broker-dealer.
- 5) Increases in the registration and transfer fees for broker dealers, agents, investment advisers and investment adviser agents.
- 6) Changes in the fees for securities registration.
- 7) The imposition of a \$25.00 filing fee for all filings made in connection with offerings exempt under 1) Section 4(2) of the Securities Act of 1933 and Section 36-490(b)(9)(A) of the Act, 2) Rule 506 of Regulation D and Section 36-490(b)(9)(A) of the Act, and 3) Rule 505 of Regulation D and Section 36-490(b)(9)(B) of the Act.
- 8) An amendment to Section 36-502(g) which provided that issuers such as the United States, a state, Canada or a foreign government with which the U.S. maintains diplomatic relations need not file a consent to service of process.

Chapter 662a of the Connecticut General Statutes, the Connecticut Business Opportunity Investment Act, was amended by P.A. 83-217 which became effective on May 26, 1983. The principal changes made by P.A. 83-217 include:

- 1) An amendment to the definition of "business opportunity" contained in Section 36-504(6) of the Act which removed the one-hundred dollar floor contained in Section 36-504(6)(D) of the Act.
- 2) A detailed description of the procedure to be followed in effecting a post-sale registration under Section 36-505(e) of the Act.
- 3) An amendment requiring sellers of business opportunities to furnish more timely disclosures to purchaser-investors and to disclose information regarding persons representing the seller in offering or selling business opportunities in Connecticut.
- 4) An amendment to Section 36-508(b) of the Act requiring business opportunity sellers to file more complete financial information with the Commissioner.
- 5) The provision of a de minimus exemption from the registration, specific disclosure, bonding and filing provisions of Chapter 662a for certain small offerings, subject to further modification, withdrawal, conditioning or waiver by order of the Commissioner.

Exemptive Orders

In connection with the amendments to Section 36-508(e) of Chapter 662a of the Connecticut General Statutes, the Banking Commissioner issued an order on June 21, 1983 defining the term "total amount a purchaser-investor becomes obligated to pay" as used in the exemptive provisions of Section 36-508(e)(1)(A). The order defined the term to include tender of money or currency; materials or products valued at fair market value; securities and escrow deposits or payment for performance guarantees. The order also defined the term to include payment for 1) promotional literature or assistance in advertising or marketing; 2) the rental or purchase of space, location or equipment; 3) assistance in operations set-up, organization or financing; 4) training; 5) initial or start-up inventory, materials or supplies; and 6) professional advice provided by the seller or on the seller's behalf.

Regulations

A number of amendments to the Regulations promulgated under the Connecticut Uniform Securities Act were implemented, effective August 17, 1983.

- 1) Section 36-500-2(f) of the Regulations was amended to provide a new definition for the term "client" as used in Section 36-471(f) of the Act which defines the term "investment adviser."
- 2) Section 36-500-5(b)(2) of the Regulations was amended to require a broker-dealer to file written notice with the Banking Commissioner within a specific time period whenever 1) it hired an agent transferred from another broker-dealer or 2) an agent left its employ.
- 3) An amendment to Section 36-500-5(b)(3) of the Regulations provided that a transfer for broker-dealer agent registration would be effected only after the Commissioner received a letter of notification from the registrant, his or her former employer and his or her new employer.
- 4) Section 36-500-5(d) of the Regulations was amended to require that a person intending to register as an investment advisor agent and/or a broker-dealer agent obtain prior written consent from both present and prospective employers to act in such dual capacity.
- 5) An amendment to Section 36-500-6(a) of the Regulations clarified what experience could satisfy the experience requirements for broker-dealer and investment adviser applicants for registration.
- 6) An amendment to Section 36-500-6 provided that all persons acting as managers must meet the experience requirements found in Section 36-500-6(a)(1) of the Regulations and clarified that a manager is any person 1) who supervises sales personnel either directly or indirectly or 2) who is responsible for the day-to-day operation and supervision of an office of a broker-dealer in Connecticut.
- 7) Section 36-500-6(e) required passage of the principal's examination for 1) all officers, partners or sole proprietors of a broker-dealer who act as managers and 2) all managers.
- 8) An amendment to Section 36-500-8(a)(1) of the Regulations required audited statements of financial condition for broker-dealer or investment adviser applicants who had been in business for one year or more.
- 9) An amendment to Section 36-500-13(a)(2) of the Regulations clarified that the person responsible for the day-to-day operation and supervision of

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- an office of a broker-dealer or investment adviser in Connecticut must be a registered principal rather than a registered agent.
- 10) A new subdivision was added to Section 36-500-13(a)(3) of the Regulations specifying what records should be maintained at the branch office of a broker-dealer or investment adviser in Connecticut.
 - 11) Section 500-13(a)(4) of the Regulations was amended to define the term "branch office."
 - 12) An amendment to Section 500-15(a)(2)(H)(i)(aa)(nnn) of the Regulations made it a dishonest or unethical business practice for a broker-dealer to execute any transaction to purchase or write an option contract without obtaining a written option agreement from the customer before the transaction was consummated.
 - 13) New subsection (c) of Section 36-500-17 of the Regulations provided for the registration of securities to be offered in series or securities for which a registration for delayed or continuous offering and sale had been filed under the Federal Securities Act of 1933 (shelf registration).
 - 14) An amendment to Section 500-17-1(a) of the Regulations clarified that a registration statement for investment company shares covered only one class, series or portfolio.
 - 15) Subsection (c) of Section 36-500-17-1 of the Regulations was amended to set forth the procedure for the filing of a renewal registration for investment company shares.
 - 16) New subsection (1) of the Section 36-500-19 of the Regulations set forth the procedures for effecting a postsale registration of securities under Section 36-488(1) of the Connecticut Uniform Securities Act.
 - 17) Section 36-500-22(b)(9) of the Regulations was substantially amended to accommodate offerings exempt under Section 4(2) of the Securities Act of 1933 and under Rules 505 and 506 promulgated by the Securities and Exchange Commission.

Respectively submitted,



Brian J. Woolf
Banking Commissioner

Table No. 51
REGISTRATIONS:
BROKER-DEALERS, INVESTMENT ADVISERS AND AGENTS

	In Effect Dec. 31		Increase	
	1983	1982	1983	1982
Broker-Dealers	916	745	22.9%	13.2%
Agents	22,587	18,707	20.7	21.4
Investment Advisers	263	214	22.9	6.5
Investment Adviser Agents	1,095	775	41.2	20.3
Agent of Issuer	151	241	(37.3)	19.9

Table No. 52
CLASSIFICATIONS OF BROKER-DEALER REGISTRANTS

Type of Business	Number		Percent	
	1983	1982	1983	1982
General Brokerage	546	410	59.6%	55.0%
Investment Trust	20	30	2.2	4.0
Other Specialists	350	305	38.2	41.0
Totals	916	745	100.0%	100.0%

Table No. 52a
MAIN OFFICE: BROKER-DEALER
AND INVESTMENT ADVISER REGISTRANTS

1983	Broker-Dealers	Investment Advisers
Alabama	1	0
Arizona	7	0
California	47	8
Colorado	25	4
Connecticut	105	97
Delaware	2	2
District of Columbia	9	0
Florida	33	4
Georgia	17	3
Hawaii	1	0
Illinois	25	2
Indiana	2	1
Iowa	3	0
Kansas	1	0
Kentucky	1	0
Louisiana	2	0
Maine	1	0
Maryland	7	2
Massachusetts	67	30
Michigan	6	0
Minnesota	14	0
Missouri	14	1
Nebraska	3	0
Nevada	1	0
New Hampshire	1	0
New Jersey	51	8
New York	348	91
North Carolina	3	0
Ohio	10	1
Oklahoma	15	0
Oregon	1	0
Pennsylvania	26	3
Rhode Island	5	0
South Carolina	1	0
Tennessee	10	0
Texas	28	2
Utah	2	0
Vermont	3	0
Virginia	7	3
Washington	4	0
Wisconsin	7	0
Bermuda	0	1
Totals	916	263

Table No. 53
TREND IN BROKER-DEALER, INVESTMENT ADVISER AND AGENTS REGISTRATIONS

Year	Broker — Dealers	Percent Increase/ Decrease	Agents	Percent Increase/ Decrease	Investment Advisers	Percent Increase/ Decrease	Investment Adviser Agents	Percent Increase/ Decrease	Agents of Issuer	Percent Increase/ Decrease
1955	251	13.1	1,177	47.3	22	29.4	13	8.3	.....	.....
1960	312	24.3	2,223	88.8	24	8.3	23	77.0	.....	.....
1965	345	10.5	3,268	47.0	42	75.0	62	169.5	.....	.....
1966	346	.0	3,703	13.3	47	11.9	85	37.0	.....	.....
1967	353	2.0	4,112	11.0	56	19.6	110	29.4	.....	.....
1968	390	10.5	5,159	25.7	60	7.1	125	13.6	.....	.....
1969	434	11.3	5,955	15.4	72	20.0	145	16.0	.....	.....
1970	451	3.9	6,429	9.6	81	12.5	171	17.9	.....	.....
1971	464	2.9	6,522	1.4	86	6.2	191	11.7	.....	.....
1972	499	7.5	7,305	12.0	103	19.7	226	18.3	.....	.....
1973	464	(7.0)	7,519	2.9	109	5.8	235	4.0	.....	.....
1974	463	(.2)	7,543	.3	121	11.0	288	22.6	.....	.....
1975	453	(2.2)	7,899	4.7	135	11.6	322	11.8	.....	.....
1976	476	5.1	8,926	13.0	156	15.6	355	10.2	.....	.....
1977	494	3.8	9,611	7.7	186	19.2	383	7.9	3	.....
1978	530	7.3	10,809	12.5	199	7.0	438	14.4	22	63.3
1979	511	(3.6)	11,318	4.7	189	(5.0)	453	3.4	178	254.5
1980	575	12.5	12,962	14.5	193	2.1	495	9.3	136	74.4
1981	647	11.1	14,700	11.8	200	3.5	618	19.9	193	29.5
1982	745	13.2	18,707	21.4	214	6.5	775	20.3	241	19.9
1983	916	22.9	22,587	20.7	263	22.9	1,095	41.2	151	(37.3)

Table No. 54
ROUTINE EXAMINATIONS
BROKER-DEALERS AND INVESTMENT ADVISERS

	1983	1982
Broker-Dealers	22	67
Investment Advisers	4	49

Table No. 55
REGISTRATIONS FILED AND EFFECTED OF
SECURITIES, TENDER OFFERS AND BUSINESS OPPORTUNITIES

	Received		Effectuated	
	1983	1982	1983	1982
Securities				
Open End Management Investment Companies . .	288	212	222	201
Renewals	817	638	737	618
Unit Investment Trusts	711	619	594	587
Renewals	6	4	6	4
Post-Sale Registrations	17	1	17	0
All Others	2,136	878	1,470	826
Total Securities Registrations	3,975	2,352	3,046	2,236
Tender Offer Registrations	0	1	0	1
Business Opportunity Registrations	36	42	18	43
Business Opportunity Renewals	15	10	6	3

Table No. 56
ENFORCEMENT ACTIVITIES
SECURITIES AND BUSINESS OPPORTUNITIES

	Securities		Business Opportunities	
	1983	1982	1983	1982
Investigations Opened	188	64	11	7
Investigations Closed	117	52	13	6
Complaints Processed	231	113	4	24
Cease and Desist Orders Issued	7	9	5	1
Show Cause Orders Issued	17	21	1	0
Revocations Orders Issued—Broker-Dealer	0	3	...	...
Denial Orders Issued—Broker-Dealer	0	1	...	...
Subpoenas Issued	11	17	2	1
Referrals for Criminal Action	1	1	0	0

Table No. 57
INTERPRETIVE OPINIONS AND EXEMPTION ACKNOWLEDGEMENTS
ISSUED BY COUNSEL:
SECURITIES AND BUSINESS OPPORTUNITIES

	1983	1982
Securities	3,159	1,956
Business Opportunities	41	28

ROSTER
DEPARTMENT OF BANKING
ADMINISTRATIVE DIVISION

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Linda Galanto
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