

CHAPTER 37.

[H. B. 13.]

SECURITIES ACT OF WASHINGTON.

AN Act relating to securities; defining terms; defining powers and duties; establishing fees; amending sections 60, 5, 9, 18, 19, 23, 27, 32 and 34 of chapter 282, Laws of 1959 and RCW 21.20.005, 21.20.050, 21.20.090, 21.20.180, 21.20.190, 21.20.230, 21.20.270, 21.20.320 and 21.20.340; and adding a new section to chapter 282, Laws of 1959 and to chapter 21.20 RCW.

Be it enacted by the Legislature of the State of Washington:

SECTION 1. Section 60, chapter 282, Laws of 1959 and RCW 21.20.005 are each amended to read as follows:

RCW 21.20.005
amended.

When used in this chapter, unless the context otherwise requires:

Securities
act.

(1) "Director" means the director of licenses of this state.

Definitions.

(2) "Salesman" means any individual other than a broker-dealer who represents a broker-dealer or issuer in effecting or attempting to effect sales of securities, but "salesman" does not include an individual who represents an issuer in (a) effecting a transaction in a security exempted by RCW 21.20.310 (1), (2), (3), (4), (9), (10), or (11), (b) effecting transactions exempted by RCW 21.20.320, or (c) effecting transactions with existing employees, partners, or directors of the issuer if no commission or other remuneration is paid or given directly or indirectly for soliciting any person in this state.

(3) "Broker-dealer" means any person engaged in the business of effecting transactions in securities for the account of others or for his own account. "Broker-dealer" does not include (a) a salesman, issuer, bank, savings institution, or trust company, (b) a person who has no place of business in this state if he effects transactions in this state exclusively with or through

the issuers of the securities involved in the transactions, other broker-dealers, or banks, savings institutions, trust companies, insurance companies, investment companies as defined in the investment company act of 1940, pension or profit-sharing trusts, or other financial institutions or institutional buyers, whether acting for themselves or as trustees, or (c) a person who has no place of business in this state if during any period of twelve consecutive months he does not direct more than fifteen offers to sell or to buy into this state in any manner to persons other than those specified in subsection (b) above.

(4) "Guaranteed" means guaranteed as to payment of principal, interest, or dividends.

(5) "Full business day" means all calendar days, excluding therefrom Saturdays, Sundays, and all legal holidays, as defined by statute.

(6) "Investment adviser" means any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as a part of a regular business, issues or promulgates analyses or reports concerning securities. "Investment adviser" does not include (a) a bank, savings institution, or trust company, (b) a lawyer, accountant, engineer, or teacher whose performance of these services is solely incidental to the practice of his profession, (c) a broker-dealer, (d) a publisher of any bona fide newspaper, news magazine, or business or financial publication of general, regular, and paid circulation, (e) a person whose advice, analyses, or reports relate only to securities exempted by RCW 21.20.310 (1), (f) a person who has no place of business in this state if (i) his only clients in this state are other investment advisers, broker-dealers, banks, savings institutions, trust companies, insurance com-

panies, investment companies as defined in the investment company act of 1940, pension or profit-sharing trust, or other financial institutions or institutional buyers, whether acting for themselves or as trustees, or (ii) during any period of twelve consecutive months he does not direct business communications into this state in any manner to more than five clients other than those specified in clause (i) above, or (g) such other persons not within the intent of this paragraph as the director may by rule or order designate.

(7) "Issuer" means any 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 the security is issued.

(8) "Nonissuer" means not directly or indirectly for the benefit of the issuer.

(9) "Person" means an individual, a corporation, a partnership, an association, a joint-stock company, a trust where the interest of the beneficiaries are evidenced by a security, an unincorporated organization, a government, or a political subdivision of a government.

(10) "Sale" or "sell" includes every contract of sale of, contract to sell, or disposition of, a security or interest in a security for value. "Offer" or "offer to sell" includes every attempt or offer to dispose of, or solicitation of an offer to buy, a security or interest in a security for value.

Any security given or delivered with, or as a bonus on account of, any purchase of securities or any other thing is considered to constitute part of the subject of the purchase and to have been offered and sold for value. A purported gift of assessable stock is considered to involve an offer and sale. Every sale or offer of a warrant or right to purchase or subscribe to another security of the same or another issuer, as well as every sale or offer of a security which gives the holder a present or future right or privilege to convert into another security of the same or another issuer, is considered to include an offer of the other security.

(11) "Securities Act of 1933", "Securities Exchange Act of 1934", "Public Utility Holding Company Act of 1935", and "Investment Company Act of 1940" means the federal statutes of those names as amended before or after the effective date of this chapter.

(12) "Security" means any note; stock; treasury stock; bond; debenture; evidence of indebtedness; certificate of interest or participation in any profit-sharing agreement; collateral-trust certificate; pre-organization certificate or subscription; transferable share; investment contract; voting-trust certificate; certificate of deposit for a security; certificate of interest or participation in an oil, gas or mining title or lease or in payments out of production under such a title or lease; 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. "Security" does not include any insurance or endowment policy or annuity contract under which an insurance company promises to pay money either in a lump sum or periodically for life or some other specified period.

(13) "State" means any state, territory, or possession of the United States, as well as the District of Columbia and Puerto Rico.

SEC. 2. Section 5, chapter 282, Laws of 1959 and RCW 21.20.050 are each amended to read as follows:

A broker-dealer, salesman, or investment adviser may apply for registration by filing with the director an application together with a consent to service of process in such form as the director shall prescribe and payment of the fee prescribed in RCW 21.20.340.

RCW 21.20.050 amended.

Broker-dealer, salesman, investment adviser. Application for registration.

SEC. 3. Section 9, chapter 282, Laws of 1959 and RCW 21.20.090 are each amended to read as follows:

Registration of a broker-dealer, salesman or investment adviser may be renewed by filing with the director prior to the expiration thereof an application containing such information as the director may require to indicate any material change in the information contained in the original application or any renewal application for registration as a broker-dealer, salesman or investment adviser filed with the director by the applicant, payment of the prescribed fee, and, in the case of a broker-dealer, a financial statement showing the financial condition of such broker-dealer as of a date within ninety days. A registered broker-dealer or investment adviser may file an application for registration of a successor, and the administrator may at his discretion grant or deny the application.

RCW 21.20.090 amended.

Renewal of registration—Financial statement—Application for a successor.

SEC. 4. Section 18, chapter 282, Laws of 1959 and RCW 21.20.180 are each amended to read as follows:

Any security for which a registration statement has been filed under the securities act of 1933 or any securities for which filings have been made pursuant to rules and regulations A and A-M pursuant to subsection (b) of Sec. 3 of said securities act in connection with the same offering may be registered by coordination. A registration statement under this

RCW 21.20.180 amended.

Registration by coordination. Requirements—Statement, contents.

section shall contain the following information and be accompanied by the following documents, in addition to payment of the registration fee prescribed in RCW 21.20.340 and, if required under RCW 21.20.330, a consent to service of process meeting the requirements of that section:

(1) One copy of the prospectus, offering circular and/or letters of notification, filed under the securities act of 1933 together with all amendments thereto;

(2) The amount of securities to be offered in this state;

(3) The states in which a registration statement or similar document in connection with the offering has been or is expected to be filed;

(4) Any adverse order, judgment or decree previously entered in connection with the offering by any court or the securities and exchange commission;

(5) If the director, by rule or otherwise, requires a copy of the articles of incorporation and bylaws (or their substantial equivalents) currently in effect, a copy of any agreements with or among underwriters, a copy of any indenture or other instrument governing the issuance of the security to be registered, and a specimen or copy of the security;

(6) If the director requests, any other information, or copies of any other documents, filed under the securities act of 1933; and

(7) An undertaking to forward promptly all amendments to the federal registration statement, offering circular and/or letters of notification, other than an amendment which merely delays the effective date.

RCW 21.20.190 amended.

SEC. 5. Section 19, chapter 282, Laws of 1959 and RCW 21.20.190 are each amended to read as follows:

Time of taking effect of statement—Conditions.

A registration statement by coordination under RCW 21.20.180 automatically becomes effective at

the moment the federal registration statement or other filing becomes effective if all the following conditions are satisfied:

(1) No stop order is in effect and no proceeding is pending under RCW 21.20.280 and 21.20.300;

(2) The registration statement has been on file with the director for at least ten full business days; and

(3) A statement of the maximum and minimum proposed offering prices and the maximum underwriting discounts and commissions has been on file for two full business days or such shorter period as the director permits by rule or otherwise and the offering is made within those limitations. The registrant shall promptly notify the director by telephone or telegram of the date and time when the federal registration statement or other filing became effective and the content of the price amendment, if any, and shall promptly file a post-effective amendment containing the information and documents in the price amendment. "Price amendment" means the final federal amendment which includes a statement of the offering price, underwriting and selling discounts or commissions, amount of proceeds, conversion rates, call prices, and other matters dependent upon the offering price.

"Price amendment".

SEC. 6. Section 23, chapter 282, Laws of 1959 and RCW 21.20.230 are each amended to read as follows:

RCW 21.20.230 amended.

A registration statement by qualification under RCW 21.20.210 becomes effective if no stop order is in effect and no proceeding is pending under RCW 21.20.280 and 21.20.300, at three o'clock Pacific standard time in the afternoon of the fifteenth full business day after the filing of the registration statement or the last amendment, or at such earlier time as the director determines. The director may require as a condition of registration under this section that a prospectus containing any designated

Registration by qualification. Time of taking effect of statement—Conditions.

part of the information specified in RCW 21.20.210 be sent or given to each person to whom an offer is made before or concurrently with (1) the first written offer made to him (otherwise than by means of a public advertisement) by or for the account of the issuer or any other person on whose behalf the offering is being made, or by any underwriter or broker-dealer who is offering part of an unsold allotment or subscription taken by him as a participant in the distribution, (2) the confirmation of any sale made by or for the account of any such person, (3) payment pursuant to any such sale, or (4) delivery of the security pursuant to any such sale, whichever first occurs; but the director shall accept for use under any such requirement a current prospectus or offering circular regarding the same securities filed under the securities act of 1933 or regulations thereunder.

RCW 21.20.270
amended.

SEC. 7. Section 27, chapter 282, Laws of 1959 and RCW 21.20.270 are each amended to read as follows:

Reports by
filer of state-
ment—Annual
financial
statements.

(1) The director may require the person who filed the registration statement to file reports, not more often than quarterly to keep reasonably current the information contained in the registration statement and to disclose the progress of the offering with respect to registered securities which (a) are issued by a face-amount certificate company or a redeemable security issued by an open-end management company or unit investment trust as those terms are defined in the investment company act of 1940, or (b) are being offered and sold directly by or for the account of the issuer.

(2) During the period of public offering of securities registered under the provisions of this chapter by notification or qualification financial data or statements corresponding to those required under the provisions of RCW 21.20.160 and 21.20.210 and to the

issuer's fiscal year shall be filed with the director annually, not more than ninety days after the end of each such year. If such statements are not certified the director may verify them by examining the issuer's books and records.

SEC. 8. Section 32, chapter 282, Laws of 1959 and RCW 21.20.320 are each amended to read as follows:

RCW 21.20.320 amended.

Except as hereinafter in this section expressly provided, RCW 21.20.040 through 21.20.300, inclusive, shall not apply to any of the following transactions:

Exempt transactions—
Denial, revocation of.

(1) Any isolated transaction, or sales not involving a public offering, whether effected through a broker-dealer or not.

(2) Any nonissuer distribution of an outstanding security by a registered broker-dealer if (a) a recognized securities manual contains the names of the issuer's officers and directors, a balance sheet of the issuer as of a date within eighteen months, and a profit and loss statement for either the fiscal year preceding that date or the most recent year of operations, or (b) the security has a fixed maturity or a fixed interest or dividend provision and there has been no default during the current fiscal year or within the three preceding fiscal years, or during the existence of the issuer and any predecessors if less than three years, in the payment of principal, interest, or dividends on the security.

(3) Any nonissuer transaction effected by or through a registered broker-dealer pursuant to an unsolicited order or offer to buy; but the director may by rule require that the customer acknowledge upon a specified form that the sale was unsolicited, and that a signed copy of each such form be preserved by the broker-dealer for a specified period.

(4) Any transaction between the issuer or other person on whose behalf the offering is made and an underwriter, or among underwriters.

(5) Any transaction in a bond or other evidence of indebtedness secured by a real or chattel mortgage or deed of trust, or by an agreement for the sale of real estate or chattels, if the entire mortgage, deed of trust, or agreement, together with all the bonds or other evidences of indebtedness secured thereby, is offered and sold as a unit.

(6) Any transaction by an executor, administrator, sheriff, marshal, receiver, trustee in bankruptcy, guardian, or conservator.

(7) Any transaction executed by a bona fide pledgee without any purpose of evading this chapter.

(8) Any offer or sale to a bank, savings institution, trust company, insurance company, investment company as defined in the investment company act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or to a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity.

(9) Any transaction pursuant to an offer directed by the offerer to not more than twenty persons (other than those designated in subsection (8) of this section) in this state during any period of twelve consecutive months, whether or not the offerer or any of the offerees is then present in this state, if (a) the seller reasonably believes that all the buyers are purchasing for investment, and (b) no commission or other remuneration is paid or given directly or indirectly for soliciting any prospective buyer.

(10) Any offer or sale of a preorganization certificate or subscription if (a) no commission or other remuneration is paid or given directly or indirectly for soliciting any prospective subscriber, (b) the number of subscribers does not exceed ten, and (c) no payment is made by any subscriber.

(11) Any transaction pursuant to an offer to existing security holders of the issuer, including per-

sons who at the time of the transaction are holders of convertible securities, nontransferable warrants, or transferable warrants exercisable within not more than ninety days of their issuance, if (a) no commission or other remuneration (other than a standby commission) is paid or given directly or indirectly for soliciting any security holder in this state, or (b) the issuer first files a notice specifying the terms of the offer and the director does not by order disallow the exemption within the next five full business days.

(12) Any offer (but not a sale) of a security for which registration statements have been filed under both this chapter and the securities act of 1933 if no stop order or refusal order is in effect and no public proceeding or examination looking toward such an order is pending under either act.

(13) The issuance of any stock dividend, whether the corporation distributing the dividend is the issuer of the stock or not, if nothing of value is given by stockholders for the distribution other than the surrender of a right to a cash dividend where the stockholder can elect to take a dividend in cash or stock.

(14) Any transaction incident to a right of conversion or a statutory or judicially approved reclassification, recapitalization, reorganization, quasi reorganization, stock split, reverse stock split, merger, consolidation or sale of assets.

(15) The offer or sale by a registered broker-dealer, acting either as principal or agent, of securities previously sold and distributed to the public: *Provided, That:*

(a) Such securities are sold at prices reasonably related to the current market price thereof at the time of sale, and, if such broker-dealer is acting as agent, the commission collected by such broker-dealer on account of the sale thereof is not in excess

of usual and customary commissions collected with respect to securities and transactions having comparable characteristics:

(b) Such securities do not constitute the whole or a part of an unsold allotment to or subscription or participation by such broker-dealer as an underwriter of such securities or as a participant in the distribution of such securities by the issuer, by an underwriter or by a person or group of persons in substantial control of the issuer or of the outstanding securities of the class being distributed; and

(c) The security has been lawfully sold and distributed in this state or any other state of the United States under this or any act regulating the sale of such securities.

The director may by order deny or revoke the exemption specified in subsection (2) of this section with respect to a specific security. Upon the entry of such an order, the director shall promptly notify all registered broker-dealers that it has been entered and of the reasons therefor and that within fifteen days of the receipt of a written request the matter will be set down for hearing. If no hearing is requested and none is ordered by the director, the order will remain in effect until it is modified or vacated by the director. If a hearing is requested or ordered, the director, after notice of an opportunity for hearing to all interested persons, may modify or vacate the order or extend it until final determination. No order under this subsection may operate retroactively. No person may be considered to have violated this chapter by reason of any offer or sale effected after the entry of an order under this subsection if he sustains the burden of proof that he did not know, and in the exercise of reasonable care could not have known of the order. In any proceeding under this chapter, the burden of proving an exemption from a definition is upon the person claiming it.

SEC. 9. Section 34, chapter 282, Laws of 1959 and RCW 21.20.340 are each amended to read as follows:

RCW 21.20.340
amended.

The following fees shall be paid in advance under the provisions of this chapter:

Fees—
Disposition.

(1) For registration of all securities other than investment trusts and securities registered by coordination the fee shall be fifty dollars for the first one hundred thousand dollars of initial issue, or portion thereof in this state, based on offering price, plus one-twentieth of one percent for any excess over one hundred thousand dollars.

(2) For registration of securities issued by a face-amount certificate company or redeemable security issued by an open-end management company or unit investment trust, as those terms are defined in the investment company act of 1940, the fee shall be fifty dollars for the first one hundred thousand dollars of initial issue, or portion thereof in this state, based on offering price, plus one-twentieth of one percent for any excess over one hundred thousand dollars which are to be offered in this state during that year: *Provided, however,* That an issuer may upon the payment of a twenty-five dollar fee renew for an additional twelve month period the unsold portion for which the registration fee has been paid.

(3) For registration by coordination, other than investment trusts, the fee shall be twenty-five dollars for initial filing fee for the first twelve month period plus twenty-five dollars for each additional twelve months in which the same offering is continued.

(4) For filing an annual statement, the fee shall be ten dollars.

(5) For registration of a broker-dealer or investment adviser, the fee shall be fifty dollars for original registration and twenty-five dollars for each annual renewal. When an application is denied

or withdrawn the director shall retain one-half of the fee.

(6) For registration of a salesman, the fee shall be ten dollars for original registration with each employer and five dollars for each annual renewal. When an application is denied or withdrawn the director shall retain one-half of the fee.

(7) For written examination for registration as a salesman, the fee shall be fifteen dollars. For examinations for registration as a broker-dealer or investment adviser, the fee shall be twenty-five dollars.

(8) (a) For the transfer of a broker-dealer license to a successor, the fee shall be twenty-five dollars.

(b) For the transfer of a salesman from a broker-dealer or issuer to another broker-dealer or issuer, the transfer fee shall be ten dollars.

(9) For certified copies of any documents filed with the director, the fee shall be the cost to the department.

(10) All fees collected under this chapter shall be turned in to the state treasury and shall not be refundable, except as herein provided.

New section.

SEC. 10. There is added to chapter 282, Laws of 1959 and to chapter 21.20 RCW a new section to read as follows:

Requisite before action to collect commission for sale of security.

No suit or action shall be brought for the collection of a commission for the sale of a security, as defined within this chapter without alleging and proving that the plaintiff was either a duly licensed salesman for an issuer or a broker-dealer, or a duly licensed broker-dealer in this state or another state at the time the alleged cause of action arose.

Passed the House February 16, 1961.

Passed the Senate February 15, 1961.

Approved by the Governor February 21, 1961.