

GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS
SAN JUAN, PUERTO RICO

Regulation No. 6078

REGULATION UNDER THE UNIFORM SECURITIES ACT OF PUERTO RICO

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS
SAN JUAN, PUERTO RICO

REGULATION UNDER THE UNIFORM SECURITIES ACT OF PUERTO RICO

ARTICLE 1. SHORT TITLE

This regulation shall be known as the "Regulation under the Uniform Securities Act".

ARTICLE 2. LEGAL AUTHORITY

This regulation is issued pursuant to the authority conferred by Puerto Rico Act Number 60 of June 18, 1963, as amended (hereafter, the "Act"); by Puerto Rico Act Number 4 of October 11, 1985, as amended (hereafter, "Act No. 4"), which creates the Office of the Commissioner of Financial Institutions, and pursuant to Puerto Rico Act Number 170 of August 12, 1988, as amended, titled the "Uniform Administrative Procedure Act of the Commonwealth of Puerto Rico" (hereinafter, "Law 170").

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ARTICLE 3. PURPOSE AND SCOPE

Pursuant to the provisions of article 412 of the Act, the Commissioner finds that the adoption of this regulation is necessary in the public interest and for the protection of the investor.

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Among other purposes, this regulation establishes the rules and procedures applicable to the registration or the filing of notices of registration, as the case may be, of securities, federal covered securities, broker-dealers, agents, investment advisers, investment adviser representatives, federal covered advisers and any other person or entity governed by the provisions of the Act. It also defines those violations of the regulation which constitute fraudulent and/or unethical practices in the securities business and which are subject to sanctions.

ARTICLE 4. DEFINITIONS

Section 4.1 General Rules.

All terms used in this regulation which are not otherwise specifically defined herein shall have the same meaning provided in the Act. For purposes of this regulation, the following terms have the meaning indicated below. Except in those cases where it is otherwise specified, the definitions listed herein include the singular and plural, as well as the masculine and feminine gender, of these terms.

Section 4.2 Specific Definitions.

- 4.2.1 "Act" - Puerto Rico Act No. 60 of June 18, 1963, as amended, known as the "Uniform Securities Act".
- 4.2.2 "ACE-NET" - refers to the "Angel Capital Electronic Network". ACE-NET is a national service throughout the United States, including Puerto Rico, sponsored by the U.S. Small Business Administration, which provides certain investors, named Accredited Investors, with a list in the "Internet" of small businesses in the process of growth which seek financing by means of capital investment from \$250,000 a \$5,000,000.
- 4.2.3 "Affiliate" - An "affiliate" of, or person "affiliated" with, a specified person, is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified.
- 4.2.4 "Blind Pool" - The term "Blind Pool" is a phrase generally used to denominate the investment mechanism in which the investor ignores the specific businesses or properties in which his contribution will be invested. Typically, it is a limited partnership where the properties in which the general partner intends to invest are not specified.
- 4.2.5 "Commissioner" - the Commissioner of Financial Institutions or his duly authorized representative.
- 4.2.6 "Control" (including the terms "controlled", "controlled by" and "under common control with") - The term "control" means the direct or indirect possession of the power to direct or cause the direction of the management or policies of a person,

whether through ownership of voting securities, by contract, or otherwise.

4.2.7 "Corporation" - The term "corporation" includes all manners of organizations which are not partnerships or individual businesses, unless otherwise indicated.

4.2.8 "CRD", "WEB CRD" or "Central Registration Depository" - The terms CRD or WEB CRD refer to the Central Registration Depository System. It is an automated system for the registration of broker-dealers and agents maintained by NASDAQ, Inc., pursuant to an agreement with, and under the guidelines established by, NASAA. Whenever the term CRD is used in this regulation, it shall be deemed to include the WEB-CRD upon its commencement of operations through the Internet, as its use may be subsequently approved by the Commissioner.

4.2.9 "Director" - The term "director" means any director of a corporation or any person who realizes similar functions with regard to any organization, whether it is incorporated or unincorporated.

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4.2.10 "Federal covered security" - The term "federal covered security" refers to those securities that, pursuant to Section 18(b) of the Securities Act of 1933, are covered by federal legislation and regulation and are subject to notice filing with the Commissioner.

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4.2.11 "Federal covered adviser" - The term "federal covered adviser" means those investment advisers that are registered with the SEC under the Investment Advisers Act of 1940. Federal covered advisers are required by the Act to make a notice filing with the Commissioner.

4.2.12 "Firm Commitment Underwriter" - For purposes of this regulation the phrase "firm commitment underwriter" is equivalent to the term "suscriptor garantizador" in Spanish. It refers to the person who binds itself to purchase from the issuer all or part of a new securities issue, for distribution to the investors.

4.2.13 "Investment Adviser Representative" - The term "investment adviser representative" means:

(a) With respect to an investment adviser that is registered under the Act, any employee or other person who makes recommendations and/or participates in the determination of which recommendations should be made.

(b) When an investment adviser representative is employed or associated with a federal covered adviser, the term "investment adviser representative" only includes an individual who has a "place of business" in Puerto Rico, as that term is defined in the rules or regulations promulgated by the SEC under Section 203A of the Investment Advisers Act of 1940, and who either:

(1) is an "investment adviser representative" as that term is defined in rules or regulations promulgated by the SEC under Section 203A of the Investment Advisers Act of 1940; or

(2) (A) is not a "supervised person" as that term is defined in rules or regulations promulgated by the SEC under Section 203A of the Investment Advisers Act of 1940; and

(B) solicits, offers or negotiates for the sale of, or sells investment advisory services on behalf of a federal covered adviser.

4.2.14 "Material". The term "material", when used to qualify a requirement for the furnishing of information as to any subject, limits the information required to those matters as to which there is a substantial likelihood that a reasonable investor would attach importance in determining whether to buy or sell the securities registered.

4.2.15 "NASAA" - refers, by its initials, to the North American Securities Administrators Association, Inc.

4.2.16 "NASD" - refers, by its initials, to the National Association of Securities Dealers Inc.

4.2.17 "Office" - the Office of the Commissioner of Financial Institutions.

4.2.18 "Officer" - The term "officer" means the president, vice president, secretary, treasurer or chief financial officer, comptroller, or chief accounting officer, and any other person who performs similar managerial functions with respect to any organization, whether incorporated or unincorporated.

4.2.19 "OTC" - by its initials, "over the counter" or "outside the exchange". The OTC market is one in which securities transactions are carried out by means of the telephone or through a computer network which communicates dealers of securities among themselves, without resorting to the stock exchange floor.

4.2.20 "Person" - The term "person" means any natural person or legal entity.

4.2.21 "Predecessor" - The term "predecessor" means a person the major portion of the business and assets of which another person acquired in a single succession, or in a series of related successions in each of which the acquiring person acquired the major portion of the business and assets of the acquired person.


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4.2.22 "Promoter" - The term "promoter" means:

(a) Any person who, acting alone or in conjunction with one or more other persons, directly or indirectly takes initiative in founding and organizing the business or enterprise of an Issuer; or

(b) Any person who, in connection with the founding and organizing of the business or enterprise of an Issuer, directly or indirectly, receives in consideration of services or property, or both services and property, ten (10) per cent or more of any class of securities of the Issuer or ten (10) per cent or more of the proceeds from the sale of any class of such securities. However, a person who receives such securities or proceeds either solely as underwriting commissions or solely in consideration of property shall not


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be deemed a promoter within the meaning of this paragraph if such person does not otherwise take part in founding and organizing the enterprise.

(c) All persons coming within the definition of "promoter" in paragraphs (a) and (b) of this definition may be referred to as "founders" or "organizers" or by any other term provided that such term is descriptive of those persons' activities with respect to the Issuer.

4.2.23 "SEC" - refers, by its initials, to the Securities and Exchange Commission of the United States.

4.2.24 "Share" or "Equity Share". The term "share" or "equity share" means every single part into which the capital of a corporation or non-corporate entity capitalized by shares, is divided. This term includes any security which is similar to a share, or any security convertible, with or without cause, into that security. It also includes any security which includes any right or privilege to subscribe to, or purchase such security or such right or privilege.

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4.2.25 "SRO" - refers, by its initials, to self-regulatory organizations. These are the entities that are registered with, and regulated by, the SEC as national securities associations pursuant to Section 15A of the Securities Exchange Act of 1934.

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4.2.26 "State" - The term "State" refers to any State, territory or possession of the United States, the District of Columbia and Puerto Rico.

4.2.27 "1934 Act" - refers to the United States Securities Exchange Act of 1934, as amended.

ARTICLE 5. FORMS

Except in the case of the Prospectus required in article 34, the forms listed herein are not part of this regulation. These may be amended in all aspects or substituted, at the discretion of the Commissioner. The reference made in this regulation to any form extends to any other form adopted to substitute it.

ARTICLE 6. PROCEDURES AND REQUIREMENTS FOR REGISTRATION, RENEWAL AND CANCELLATION OF REGISTRATION OF PERSONS SUBJECT TO THE PROVISIONS OF THE ACT; NOTICE FILINGS BY FEDERAL COVERED ADVISERS AND INVESTMENT ADVISERS REPRESENTATIVES OF FEDERAL COVERED ADVISERS.

Section 6.1. Authorization of the CRD System or designation of alternate methods.

6.1.1. The CRD is authorized to accept filed documents and collect fees on behalf of the Commissioner.

6.1.2. The Commissioner shall establish an alternate method for registration of broker-dealers and agents in the event the Office ceases to be a member of the CRD System.

Section 6.2. Application for initial registration of broker-dealers.

6.2.1. Applications for initial registration of broker-dealers and payment of the appropriate filing fees shall be accepted through the CRD system. As of the date of effectiveness of this regulation, every person seeking to do business as a broker-dealer in Puerto Rico shall file an application for initial registration by means of the CRD.

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6.2.2. Applicants for initial registration as broker-dealers shall pay a filing fee of \$500.

6.2.3. In addition to subsections 6.2.1 and 6.2.2, above, applicants for initial registration as broker-dealers shall meet the following requirements:

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(a) Pass the examination provided for in Section 7.1 of this regulation. If applicant qualifies for the examination exemption provided in Section 7.2, applicant shall be deemed to be authorized only to engage in the business or carry out the transactions allowed by the validated examination.

(b) File an application in registration Form BD or its substitute, together with a "Certification of No Sales" certifying that applicant has not transacted any securities business in Puerto Rico during the time the firm was not registered in this jurisdiction.

(c) The filing shall include the documents required in the registration form, including a statement of financial condition in the fashion prescribed in article 15 of this regulation, a corporate resolution (Form R-5), including a consent to service of process. The application shall include the name and CRD number of the principal officer who will supervise all of the entity's business in Puerto Rico.

Section 6.3. Application for renewal registration of broker-dealers.

6.3.1. Every broker-dealer shall renew its registration in Puerto Rico annually through the CRD System.

6.3.2. The fee for renewal of registration as broker-dealer shall be five hundred dollars (\$500).

6.3.3. In order to be deemed complete, the filing shall include all the documents required by the appropriate registration renewal form and shall include a certification of compliance with section 1157 of the Internal Revenue Code of Puerto Rico.

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Section 6.4 Applications for amendments or transfers of registration of broker-dealers.

6.4.1. Applications for amendments or transfer of registration of broker-dealers shall be accepted through the CRD system.

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6.4.2. In order to be deemed complete, the filing shall include all the documents required by the appropriate registration renewal form.

Section 6.5. Application for initial registration, renewal or transfer of registration of agents of broker-dealers.


6.5.1. Any person who intends to, or in effect does, engage in business in Puerto Rico as an agent associated with a broker-dealer, shall pursue his registration with the Commissioner through the CRD and shall file an application with the CRD System for initial registration in Form U-4 or its substitute, together with one hundred and fifty dollars (\$150.00) as filing fee.


6.5.2. A broker-dealer may renew the registration of each of its agents in Puerto Rico, by filing the renewal information required by the CRD System together with a fee of one hundred fifty dollars (\$150) per agent. The filing shall include the documents required by Form U-4 or its substitute.

6.5.3. Every broker-dealer which requests the transfer of an agent in Puerto Rico, shall file with the CRD System Form U-4 for the transfer of registration being effected, or its substitute. Applicants for the transfer of registration as agents shall pay a filing fee of \$150.00.

Section 6.6. Notice of cessation of employment of agents in Puerto Rico.

6.6.1. Every broker-dealer firm must give notice of the cessation of employment of agents in Puerto Rico by filing Form U-5 (or its substitute) used for the cancellation of registration being effected through the CRD System.

 6.6.2. Notwithstanding the fact that the filings are made by the firm on behalf of the agents, this procedure shall not release the agent from his individual obligation or responsibility under the Act.

 Section 6.7. Application by issuers' agents for initial registration and for renewal of registration.

6.7.1. Any person who intends to, or in effect does, engage in business in Puerto Rico as agent for one or more issuers, shall file a registration application with the Commissioner.

6.7.2. In addition to the above, unless otherwise exempted by the Commissioner at his sole discretion, applicants filing for initial registration as an issuer's agent shall meet the following requirements:

- (a) Pass the examination provided for in Section 7.1 of this regulation or, in the alternative, submit evidence of having passed the equivalent examinations by the NASD or the NYSE.

- (b) File an application in Form R-2 or its substitute, together with one hundred and fifty dollars (\$150.00) as filing fee. Said filing shall include the documents required in the appropriate form, including a consent to be served with process, a bond in the amount of two thousand dollars (\$2,000) in Form R-7 or its substitute, and an appointment and application for registration in Form R-8 or its substitute.
- (c) Execute and file Form R-9 indicating the status of the agent in relation to the issuer.

6.7.3. Every issuer's agent seeking the renewal of his registration shall file a registration renewal application by updating the information contained in Form R-2 or its substitute, at least fifteen (15) days before the expiration date of the registration presently in effect, together with one hundred and fifty dollars (\$150.00) in registration renewal fees.

Section 6.8. Registration and other requirements applicable to investment advisers registered under the Act.

6.8.1. Any person who intends to, or in effect does, engage in business in Puerto Rico as an investment adviser, shall register with the Commissioner by filing an originally executed Form R-3, together with five hundred dollars (\$500) in payment of initial registration fees.

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6.8.2. The registration under this section as an investment adviser shall be in effect for one year from the date it is deemed effective by the Commissioner.

6.8.3. Those investment advisers required to be registered under the Act must pass the examination provided for in Section 7.1 of this regulation.

6.8.4. The Commissioner may require an applicant for registration as investment adviser to submit, as part of the registration process, any other additional information or documentation which the Commissioner deems necessary.

6.8.5. If the Commissioner finds it necessary for public interest reasons, the Commissioner shall require the posting of a bond

pursuant to the provisions of article 202(a) of the Act. No bond shall be required of any federal covered adviser nor of any investment adviser that maintains its principal place of business outside of Puerto Rico provided that such adviser is registered with the state where it maintains its principal place of business and in compliance with such state's bonding requirement, if any.

- 6.8.6. Every investment adviser interested in the renewal of its registration shall file a registration renewal application in Form R-3, at least fifteen (15) days before the expiration date of the registration presently in effect, together with five hundred dollars (\$500.00) in registration renewal fees. The filing shall include the documents required by the appropriate registration renewal form.

Section 6.9. Registration of investment adviser representatives.

- 6.9.1. Any person who intends to, or in effect does, engage in business in Puerto Rico as an investment adviser representative must file an application for registration as an investment adviser representative. This application shall be filed with the Commissioner in Form U-4 or its substitute.

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- 6.9.2. The application for registration shall be accompanied by the applicable registration fees together with evidence that applicant has complied with the examination requirements of Section 7.1 of this regulation.

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- 6.9.3. When the information provided in Form U-4 or its substitute becomes inaccurate or incomplete for any reason, the investment adviser representative or the investment adviser for whom the investment adviser representative works, shall be responsible for updating or correcting the information, by filing the corresponding amendments to Form "U-4" within 30 days of the date upon which the changes in information occurred.

- 6.9.4. A registration under this section shall expire on the same date of expiration of the registration of the investment adviser for whom the investment adviser representative works.

6.9.5. An investment adviser representative may renew his registration in Puerto Rico by filing the appropriate renewal registration form with the Commissioner together with payment of the applicable renewal fee.

6.9.6. Any documents that are required by this section 6.9 to be filed with the Commissioner may be filed electronically provided that such electronic filing system is acceptable to the Commissioner and provided that the person filing such document complies with the requirements of the Act and this regulation.

Section 6.10. Filings required of federal covered advisers.

6.10.1. Any person who intends to, or in effect does, engage in business in Puerto Rico as a federal covered adviser, shall make a notice filing with the Commissioner.

6.10.2. The notice filing required above shall consist of a copy of Form ADV, or its substitute, together with the consent to service of process required by article 414(g) of the Act, joined by the payment of five hundred dollars (\$500) as notice filing fees. If the consent to service of process as required by article 414(g) of the Act is contained and duly executed in the original of Form ADV filed with the Commissioner, it shall not be necessary to execute and file with the Commissioner an additional consent to service of process.


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6.10.3. A notice filing under this section shall be effective for one year commencing on the date of receipt by the Commissioner.

6.10.4. A federal covered adviser may renew its notice filing in Puerto Rico by filing a copy of Form ADV to the Commissioner together with a five hundred dollar (\$500) notice filing renewal fee. Such filing shall be made at least fifteen (15) days before the expiration date of the notice filing currently in effect and shall be effective upon the expiration of the filing being renewed.

6.10.5. Any documents that are required by this section 6.10. to be filed with the Commissioner may be filed electronically

provided that such electronic filing system is acceptable to the Commissioner and provided that the person filing such document complies with the requirements of the Act.

Section 6.11. Registration of investment adviser representatives of federal covered advisers.

6.11.1. Any person who intends to, or in effect does, engage in business in Puerto Rico as an investment adviser representative of a federal covered adviser, shall make a notice filing with the Commissioner.

6.11.2. The notice filing required above shall consist of a copy of Form U-4, or its substitute, together with the consent to service of process required by article 414(g) of the Act, joined by the payment of the applicable notice filing fees. If the consent to service of process as required by article 414(g) of the Act is contained and duly executed in the original of Form U-4 filed with the Commissioner, it shall not be necessary to execute and file with the Commissioner an additional consent to service of process.

6.11.3. A notice filing under this section shall expire on the same date of the expiration of the notice filing effected by the federal covered adviser for whom the investment adviser representative works.

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6.11.4. A federal covered adviser may renew the notice filing of its representatives in Puerto Rico by filing with the Commissioner a list of the adviser's representatives and copy of an updated Form U-4 together with the applicable notice filing renewal fee.

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6.11.5. Any documents that are required by this section 6.11 to be filed with the Commissioner may be filed electronically provided that such electronic filing system is acceptable to the Commissioner and provided, further, that the person filing such document complies with the requirements of the Act.

6.11.6. When the information provided in Form U-4 or its substitute becomes inaccurate or incomplete for any reason, the investment adviser representative or the federal covered

adviser for whom the investment adviser representative works, shall be responsible for updating or correcting the information, by filing notice of the corresponding amendments within 30 days of the date upon which the changes in information occurred or any shorter period specifically applicable to the situation.

Section 6.12. Denial of registration.

Regardless of applicant's eligibility under the provisions of this regulation, the Commissioner may deny an application for registration when he finds that granting said registration is contrary to the public interest, as provided in article 204 of the Act.

Section 6.13. Effective date and cancellation of a registration or notice filing.

6.13.1. In the absence of an order by the Commissioner shortening the period, and if there is no order denying it, nor any proceeding pending under article 204 of the Act, all registrations of broker-dealers, investment advisers, agents, investment adviser representatives and issuers' agents shall be effective not later than by noon on the thirtieth (30) day after the complete application was filed with the Commissioner.


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6.13.2. A notice filing by a federal covered adviser or by an investment adviser representative of a federal covered adviser shall be effective upon its receipt by the Commissioner.


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6.13.3. The Commissioner may issue authorizations in writing or by electronic means to confirm the effectiveness of a registration or a notice filing.

6.13.4. Unless previously renewed, the registrations for the following persons shall expire one year after their effective date:

- (a) broker-dealers;
- (b) agents of broker-dealers;
- (c) agents of issuers, and
- (d) investment advisers.

6.13.5. If a registration has been revoked, it may not be renewed.

Section 6.14. Alternate system for registration of investment advisers and investment advisers representatives.

6.14.1. After authorization of any such system by the Commissioner, applications for initial registration of investment advisers and investment advisers representatives, as well as amendments and renewals thereof, and the payment of the appropriate fees, may be accepted through an electronic system designated by the Commissioner.

ARTICLE 7. EXAMINATIONS REQUIREMENTS

Section 7.1. Examination required.

7.1.1. Unless otherwise exempted under section 7.2, below, every applicant for registration or for renewal of registration as broker-dealer, agent, investment adviser or investment adviser representative and every individual subject to the provisions of the Act, who performs or intends to perform investment advice endeavors, must pass, as may applicable to the particular registration sought by applicant, the Series 7, 63, 65 or 66 examination administered by the NASD.

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7.1.2. If the applicant for registration as a broker-dealer or investment adviser is a corporation, the examination shall be taken and passed by an officer of the same, or by a person who holds a similar position or performs similar functions as those of an officer of the corporation.

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7.1.3. If the applicant for registration as a broker-dealer or investment adviser is a partnership, the examination shall be taken and passed by the managing partner or partners of the partnership.

7.1.4. If the applicant for registration as a broker-dealer or investment adviser is an individual business, the examination shall be taken and passed by the owner.

Section 7.2. The following classes of persons are exempt from the examination provisions of Section 7.1, above:

(1) Any broker-dealer, agent, investment adviser or investment adviser representative who, as of the effective date of this

regulation, is duly registered in such capacity with the Office.

(2) Regarding broker-dealers, any applicant who at the time of the filing of the application for registration is a registered representative (as this term is defined by the NASD and NYSE) registered with the NASD or the NYSE, including a corporation or partnership which has an officer or managing partner thus registered.

(3) Any applicant who has passed the corresponding examination offered by the NASD or the NYSE, including a corporation or partnership which has an officer or managing partner who has passed said examination, if satisfactory evidence of having passed that examination is submitted.

(4) Any applicant who has previously passed an examination provided for in this article, including a corporation or a partnership which has an officer or managing partner who has passed said examination, if satisfactory evidence of having passed that examination is submitted.

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ARTICLE 8. PUBLIC DOCUMENTS

Section 8.1. The following are public documents subject to inspection by the public:

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(i) Every application for registration as broker-dealer, investment adviser, agent or investment adviser representative and every notice filing by a federal covered adviser or representative of a federal covered adviser;

(ii) Every notice relating to the establishment of branches and every document attached thereto;

(iii) Every security registration statement by notification, coordination, or qualification and every document attached thereto and every notice filing on a federal covered security.

Section 8.2. An exception from the provisions of section 8.1, above, is made in regard to any document which the Commissioner, in his discretion, orders to be classified as confidential, after receiving a request for confidential treatment of said document. Said request

must explain in detail the reasons and need for such confidential treatment.

Notwithstanding the provisions of the preceding paragraph, the Commissioner may rescind the order classifying any document as confidential. The order rescinding the confidential treatment of a document shall be issued pursuant to the provisions for adjudicative procedures provided in Law 170 and Regulation No. 3920, adopted by the Commissioner on June 23, 1989, and titled "To Regulate the Adjudicative Procedures Under the Jurisdiction of the Office of the Commissioner of Financial Institutions" ("Regulation 3920").

Section 8.3. The product of the examinations and investigations of broker-dealers, investment advisers, agents, investment adviser representatives, issuers' agents, federal covered advisers and representatives of federal covered advisers, performed by the Commissioner's examiners or by his authorized agents, whether public or private, and the product of any other investigation authorized by Puerto Rico Act No. 4 of October 11, 1985, as amended, including examiners' reports and other documents obtained during said investigations and examinations, shall be confidential in nature.


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ARTICLE 9. BRANCHES OF REGISTERED BROKER-DEALERS.

Any broker-dealer registered pursuant to the provisions of the Act, may establish branches in Puerto Rico after having previously notified the Commissioner and once the following requirements are met:


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- (1) File a written notice of the establishment of the branch in question. Such notice shall be submitted to the Office by filing copy of amended Schedule E to Form BD or their respective substitutes.
- (2) As used in this article, "branch" shall have the same meaning as defined in article 28 of this regulation.

ARTICLE 10. AFFILIATION

When an investment adviser is affiliated with a broker-dealer, issuer and/or seller, it shall immediately notify the Office, in writing.



An investment adviser that is registered with the Commissioner and that maintains its principal place of business in Puerto Rico shall also give written notice of such affiliation to its customers within a period which shall not exceed thirty (30) days after the consummation of the transaction that gives rise to the affiliation of an investment adviser with a broker-dealer, issuer and/or seller.

In the cases of investment advisers not included in the preceding paragraph, the broker-dealer, issuer and/or seller with whom the investment adviser is affiliated shall be responsible for issuing the corresponding written notices to the Commissioner and customers within the same period of time provided above.

ARTICLE 11. RELATIONSHIP BETWEEN BROKER-DEALERS AND INVESTMENT ADVISERS

In every case where a broker-dealer refers his customers to an investment adviser for financial advice, the broker-dealer shall notify his customer whether such investment adviser is an affiliate of the broker-dealer and whether the broker-dealer will receive a fee for such referral.

ARTICLE 12. MULTIPLE CAPACITIES OF INVESTMENT ADVISERS

 APPROVED In every case where an investment adviser acts simultaneously as an agent, whenever (1) such investment adviser is an affiliate of the broker-dealer or (2) the broker-dealer or agent will receive a fee for his role in executing the transaction, the investment adviser shall  APPROVED notify his customer, in writing, of said circumstance, advising him of the possibility of a conflict of interest.

The written disclosure required in the preceding paragraph must appear in the advisory contract. If it does not appear in the contract, the written disclosure shall be delivered to the customer as an additional document required, once the first transaction in which it acts as an agent is executed. The investment adviser shall specify in the disclosure that he may be separately compensated for his services as an agent. The provisions of this article shall not apply to any investment adviser that maintains its principal place of business outside of Puerto

Rico provided that such investment adviser is registered in the state where it maintains its principal place of business and in compliance with such state's record-keeping requirements, if any.

ARTICLE 13. MULTIPLE EMPLOYERS

No person shall be concurrently registered as an agent of more than one broker-dealer or issuer unless written authorization is obtained from the Commissioner. The Commissioner, at his discretion, may authorize multiple registrations under this article if each employer files a written statement consenting to the multiple employment of the agent, except that such consent is not required where both employers are affiliated or under common management and control.

ARTICLE 14. SUSPENSION OR DISMISSAL OF AGENTS OR INVESTMENT ADVISER REPRESENTATIVES

Every broker-dealer and investment adviser shall file written notice with the Commissioner not later than five (5) business days after the suspension or dismissal of an agent or an investment adviser representative, as applicable, or after an agent or investment adviser representative leaves its employment stating the reasons for such suspension or dismissal. Additionally, if the broker-dealer is a member of the NASD, it shall give the corresponding notice to the CRD System.

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In the cases of suspensions or dismissals of representatives of federal covered advisers, the federal covered adviser shall file with the Commissioner copies of the notices filed with the SEC in relation to such matters.

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ARTICLE 15. FINANCIAL STATEMENTS

Section 15.1. Presentation of Financial Statements; Requirements.

Except as otherwise provided in this article, every application by a broker-dealer or investment adviser to register or for the renewal of the registration shall be accompanied by a report of financial condition. Said report shall include a statement of condition, a separate statement of the surplus account and a statement of profit and losses as of a date within the three (3)

months before the filing date. Instead of filing the reports required by this article, an investment adviser that maintains its principal place of business outside of Puerto Rico and that is registered in the state where it maintains its principal place of business and in compliance with such state's financial reporting requirements, if any, shall file with the Commissioner a copy of the financial statements it files with the state where it maintains its principal place of business.

Section 15.2. In lieu of the statement of financial condition required by section 15.1 of this article, a person that is registered under the 1934 Act as a broker-dealer shall file with the Commissioner a copy of the annual financial reports required thereunder.

Section 15.3. At his discretion, the Commissioner may authorize the electronic filing of the information required in this article.

ARTICLE 16. BOOKS AND RECORDS OF BROKER-DEALERS

Section 16.1. Records required.

Every broker-dealer shall keep and maintain available for inspection by the Commissioner those books and records which it is required to maintain pursuant to the 1934 Act and the rules and regulations issued from time to time pursuant to that act, including among others: SEC Rules 10b-10, 15c2-12, 17a-3 and 17a-4 and any other provisions that amend or replace such rules or regulations and NASD Rule 3110 or its substitute. The books and records shall be kept up to date and maintained in their true and exact original condition. Such books and records shall be preserved for the time, in the manner and in the places provided by the 1934 Act and the rules and regulations issued or which may be issued under its provisions.

Section 16.2. Manner and Access to Records and Documents

16.2.1 Compliance with the requirements of the SEC concerning preservation of records is deemed compliance with this subsection.

16.2.2 The Commissioner, or the person designated by him, may, at any moment, carry out inspections, without previous notice, to review and inspect the affairs of the broker-dealer. The Commissioner, or the person designated by him, may require that any record subject to the Commissioner's inspection be submitted to the Office for a determination of whether there has been compliance with applicable laws or regulations.

16.2.3 The broker-dealer shall place at the Commissioner's disposition, for his inspection, all the records in his possession or control which are related to its business as a broker-dealer or which lead to information related to its business as a broker-dealer, regardless of whether such records are required or not by this article. All those records which are not within the immediate possession of the broker-dealer, but which the broker-dealer has the ability to obtain, shall be obtained and produced to the Commissioner or the person designated by him, as soon as they are requested. If the broker-dealer refuses to produce any document claiming it is privileged, the broker-dealer shall identify with detail the document alleged to be privileged and the specific privilege which is invoked in regard to every item in the document. A claim of privilege does not excuse a broker-dealer from maintaining the records required by this article.


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ARTICLE 17. MINIMUM CAPITAL REQUIREMENTS FOR BROKER-DEALERS

Every broker-dealer shall comply at all times with the minimum capital requirements and the net capital to total debt ratios provided by the 1934 Act and the rules and regulations issued thereunder, including Rule 15c3-1, or those rules or regulations which amend or substitute them.

ARTICLE 18. MINIMUM CAPITAL REQUIREMENTS FOR INVESTMENT ADVISERS

Section 18.1. Each investment adviser that maintains its principal place of business in Puerto Rico and who has any authority or

discretionary authority to order transactions to be effected for a customer of the investment adviser, shall maintain at all times a minimum capital or net worth, as computed by generally accepted accounting principles, except for the qualification of section 18.2. hereof, as follows:

(i) If a corporation - \$8,000 plus \$2,500 for each branch office in Puerto Rico.

(ii) If a partnership - \$5,000 plus \$2,500 for each branch office in Puerto Rico.

(iii) If a sole proprietorship - - \$2,500 plus \$2,500 for each branch office in Puerto Rico.

Section 18.2. The following assets shall not be considered for the purposes of computing under this rule the capital or net worth of investment advisers having their principal place of business in Puerto Rico:

(i) Real estate, furniture and fixtures.

(ii) Intangible assets including among other things, patents, copyrights, secret processes and formulae, goodwill, trade-marks, trade-brands, franchises.

(iii) Assets which cannot readily be converted into cash.

(iv) Assets whose approximate value cannot be ascertained.

(v) Securities and cash pledged for surety bonds.

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ARTICLE 19. BOOKS AND RECORDS OF INVESTMENT ADVISERS

Section 19.1. Books and records required.

19.1.1 Except as otherwise provided in Section 19.1.4 of this article, every investment adviser subject to registration in this Office, shall preserve and keep accessible for inspection by the Commissioner, the books and records which are required to be kept under the federal act titled the "Investment Advisers Act of 1940", as amended, and the rules and regulations issued or which in the future may be issued under the same. Such books and records shall be kept current and preserved in the manner, during the time, and in the place

specified by the "Investment Advisers Act of 1940", as amended, and the rules and regulations issued or which in the future may be issued under the same.

19.1.2 Unless otherwise provided, the files specified in subsection 19.1.1 in this Section shall be preserved in an accessible place in Puerto Rico for a period which shall not be shorter than five (5) years. During the first two years of this five year period the files shall be preserved in an appropriate office of the Investment Adviser. The time periods provided in this subsection shall be computed commencing on the closing date of the fiscal year on which books were closed for the year during which the last entry was made in a file.

19.1.3 Every registered investment adviser whose principal office is located in Puerto Rico, shall preserve and keep in that office, available for inspection by the Commissioner, the books and records required to be kept at an investment adviser's principal office by Section 204 of the "Investment Advisers Act of 1940" and any rule adopted pursuant thereto.

19.1.4 An investment adviser which maintains its principal place of business in another State, is registered or licensed as an investment adviser in such State, and is in compliance with the applicable books and records requirements of that State, shall be deemed to be in compliance with the requirements of Section 19.1.1. hereof.

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Section 19.2. Manner and Access to Records and Documents.

19.2.1 Investment advisers subject to the provisions of this article shall comply with the requirements of the SEC concerning method of preservation and access to records by regulators.

19.2.2 The Commissioner, or the person designated by him, may, at any moment, carry out inspections in the principal office, offices or branches, without previous notice, to review and inspect the affairs of an investment adviser.

19.2.3 The Commissioner, or the person designated by him, may require that any record be submitted to the Office for a determination

of whether there has been compliance with applicable laws or regulations.

19.2.4 The investment adviser shall place at the Commissioner's disposition, for his inspection, all the records in his possession or control which are related to its business as an investment adviser or which lead to information related to its business as an investment adviser, regardless of whether or not such records are required to be maintained by this article. All those records which are not within the immediate possession of the investment adviser, but which the investment adviser has the ability to obtain, shall be obtained and produced to the Commissioner or the person designated by him promptly following such request.

19.2.5 If the investment adviser refuses to produce any document by claiming that the same is protected by a privilege, it shall identify with detail the document alleged to be privileged and the specific privilege which is invoked in regard to every item in the document. A privilege claim does not excuse an investment adviser from maintaining the records required by this article.

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ARTICLE 20. DUTY TO CORRECT OR AMEND INFORMATION

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Section 20.1. If the information contained in any application for registration as broker-dealer, investment adviser, investment adviser representative or agent, or any amendments thereto, is or becomes inexact or incomplete in any material aspect, the applicant or registrant, as applicable, shall file a correction amendment with the Commissioner. Except as otherwise provided in Article 14 of this regulation and section 20.2, below, the correction amendment shall be filed within thirty (30) days subsequent to the event which rendered the information previously filed inexact or incomplete. A notice filing by a federal covered adviser shall be updated by promptly filing with the Commissioner a copy each amendment filed by the adviser with the SEC.

Section 20.2. Where the information subject to amendment or correction relates to (i) disciplinary actions resulting in reprimands or suspensions, (ii) cessation in the employment of agents or representatives for cause, or (iii) failure to comply with applicable minimum capital requirements, written notice must be submitted to the Office as soon as practicable, but in no case later than five (5) days subsequent to the event which rendered the information previously filed inexact or incomplete.

Section 20.3. For purposes of this article, an application or amendment to an application or registration filed by a broker-dealer, investment adviser, investment adviser representative or agent, shall be considered incomplete in a material aspect if it fails to include accurate and complete responses to each of the disciplinary action questions in the application form. Upon request of the Commissioner, the broker-dealer, investment adviser, investment adviser representative, agent, registrant or applicant shall provide to the Commissioner all documents relating to the disciplinary information disclosed in any application or amendment thereto.

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ARTICLE 21. PROTECTION OF SECURITIES AND CUSTOMERS' FUNDS

Every broker-dealer shall comply with the provisions about protection of securities and customers' funds provided in the 1934 Act and the rules and regulations issued pursuant thereto, including Rule 15c3-3, or those rules which may be subsequently adopted to amend or substitute them.

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ARTICLE 22. INVESTMENT ADVISER PROHIBITED FROM CUSTODY OR POSSESSION OF CLIENT FUNDS OR SECURITIES

Section 22.1. An investment adviser is prohibited from having custody or possession of any securities or any funds of any client.

Section 22.2. The provisions of section 22.1 shall not apply to an investment adviser also registered as a broker or dealer under Section 15 of the 1934 Act.

ARTICLE 23. REPORTS ABOUT THE PRICES OF CERTAIN SECURITIES
ORIGINATED IN PUERTO RICO

The Commissioner, by circular letter to that effect and after due consultation with industry representatives, may provide for the establishment, consistent with federal law, of a system for remittance of information in regard to securities originated in Puerto Rico that are not traded on a national stock exchange, for which there are no regular quotations of prices in a recognized system of quotations or where detailed up to date information on such securities is not generally available to the public. The purpose of the system will be to provide market transparency to the general public regarding these types of securities.

ARTICLE 24. PAYMENTS FOR PUBLICITY IN REGARD TO A SECURITY

Section 24.1. Any person that publishes by means of the press, radio or television, or gives publicity, or circulates any news, advertisement, circular, newspaper article, letter, investment service or communication, which describes a particular security, other than a federal covered security, even when it is not offered for sale, shall disclose in the communication mentioned before, if such is the case, that the person received or will receive, directly or indirectly, remuneration from the issuer, underwriter or dealer of the security for such publication or publicity.

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Section 24.2. The violation of the provisions of this article constitutes a fraudulent practice or misleading act subject, among others, to the criminal sanctions provided in the Act.

ARTICLE 25. DISHONEST AND UNETHICAL PRACTICES IN THE SECURITIES
BUSINESS





Section 25.1. Standard of business and fiduciary duties toward customers. Every broker-dealer, issuer, investment adviser, investment adviser representative, federal covered adviser, investment adviser representative of a federal covered adviser, agent or any other person subject to the provisions of the Act, must observe the

highest standard of fiduciary duty toward their customers and investors.

Section 25.2. Dishonest Practices.

The acts mentioned in the following sections of this article, among others, are practices contrary to the standards mentioned in section 25.1, above, and constitute actions sanctionable by the denial, suspension or revocation of the registration or any other remedy authorized by the Act, this regulation or any other applicable legal provision.

Section 25.3. In regard to broker-dealers, investment advisers, investment adviser representatives, federal covered advisers, investment adviser representatives of federal covered advisers and agents, any of the following acts, among others, constitute dishonest or unethical practices:

- 25.3.1 To act in contravention of articles 101, 102, 103, 201 and 301 of the Act;
- 25.3.2. To switch a customer from one security to another for the purpose of obtaining commissions or profits;
-   25.3.3. To carry out or induce the execution of transactions in, or for the account of a customer, that result excessive in size or frequency, taking into consideration the financial resources, the profile of the investor, the nature the account and investment objectives of the customer ("churning");
-   25.3.4. To recommend to a customer the purchase, sale or exchange of any security without reasonable grounds to believe that such transaction or recommendation is suitable for the customer in light of the information obtained from the customer by the broker-dealer, investment adviser, investment adviser representative or agent, to verify the investment objective, economic situation and needs of the customer, which information will be used to perform the analysis about adequate transactions or recommendations for the customer ("suitability");

- 25.3.5. To execute transactions in, or for the account of a customer, without reasonable grounds to believe that such transaction is suitable for said customer in light of the information obtained from the customer by the broker-dealer, investment adviser, investment adviser representative or agent to verify the customer's investment objectives, financial situation and needs;
- 25.3.6. To state or make the customer believe that the agent, broker-dealer, investment adviser or investment adviser representative will not receive a commission or remuneration in a transaction, when the agent, broker-dealer, investment adviser or investment adviser representative will in fact receive said commission or remuneration;
- 25.3.7. To carry out transactions in or for the account of a customer without the authorization of the customer;
- 25.3.8. To charge unreasonable or excessive fees for services rendered, including miscellaneous services such as the collection of money that is owed in the concept of principal, dividends or interests, exchange or transfer of securities, transactions, custody of securities and any other service related with the securities business of the broker-dealer, agent, investment adviser or investment adviser representative;
- 25.3.9. Guaranteeing a customer against loss in any securities account of that customer carried with the broker-dealer, investment adviser, investment adviser representative or agent, or in any securities transaction effected with, or for such customer;
- 25.3.10. To represent, publish, circulate, or cause the publication or circulation of any notice, circular, advertisement, newspaper article, investment service, or any other communication of any kind that pretends to inform about the purchase or sale of a security, unless said information is based in a bonafide purchase or sale of the security or which pretends to quote the price which is being bid for the purchase and the price

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which is being asked for the sale of any security, unless the broker-dealer, investment adviser, investment adviser representative or agent is convinced that such prices are the bonafide prices which are being bid for the purchase and being asked for the sale of said security;

25.3.11. To use any advertising, research materials or sales presentation in such a manner as to be deceptive or misleading or which would have the effect of detracting from, superseding or defeating the purpose or effect of any prospectus or disclosure document;

25.3.12. Where the broker-dealer is controlled by, controlling, or under common control with, the issuer of any security, failing to disclose to a customer, before entering into any contract with or for such customer for the purchase or sale of such security, the existence of such control. If such disclosure is not made in writing, it shall be supplemented by the giving or sending of a written disclosure at or before the completion of the transaction;

25.3.13. To circulate or disseminate information with the purpose of inducing the purchase or sale of any security, to the effect that the price of said security will increase or that it is probable that it will increase or decrease, due to the manipulation of the market by one or more persons, carried out with the purpose of increasing or decreasing the price of the security;

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25.3.14. To communicate with any person using threats, intimidating, obscene, profane or abusive language, in relation with the recommendation of securities, transactions, or other activities in brokerage accounts;

25.3.15. To call any person after the person has indicated that he/she does not wish to be called, or has requested not to be called, or to communicate with said person in any other fashion;

25.3.16. To communicate with any person in his residence without his previous consent, after the hours provided by the NASD, which

are hereby incorporated by reference and made extensive to investment advisers and investment advisers representatives;

- 25.3.17. To communicate with any person, without first providing at the beginning of the communication the identity of the person who calls, as well as the identity of the broker-dealer, investment adviser or the issuer whom he represents;
- 25.3.18. To divide or share commissions, profits or accounts receivable, in connection with the purchase or sale of securities, with a person that is not registered in Puerto Rico; and
- 25.3.19. Except when expressly authorized by law, to share directly or indirectly in the profits or losses in the account of a customer.

Section 25.4. In regard to broker-dealers, in addition to section 25.3, above, any of the following acts, among others, constitute dishonest or unethical practices:

- 25.4.1. To incur in unreasonable delays in the delivery of securities purchased and fully paid for by any of his customers and/or in the payment upon request of free credit balances of any of the broker-dealer's customers;
- 25.4.2. Failing to segregate a customer's fully paid-for or excess margin securities;
- 25.4.3. To hypothecate customers' securities without previously obtaining the customers' written consent;
- 25.4.4. Failing to establish procedures of supervision to avoid and/or detect violations to the Act and this regulation and a system to implement the same;
- 25.4.5. Failing to effect a bonafide public offer of the securities which may have been assigned to the broker-dealer, either as an underwriter or as a member of a sales group for said security, or which may have been assigned by a member participating in the distribution as an underwriter or member of a sales group;

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- 25.4.6. Failing or refusing to provide a customer, upon the latter's request, information to which the customer is entitled, or failing to reply to a formal requirement or complaint made by the customer in writing;
- 25.4.7. If acting as an agent for the customer ("agency basis") in a transaction, to collect or to receive an unreasonable commission, service charge or profit, taking into consideration all relevant circumstances, including the conditions of the market with respect to such security at the date of the transaction, the expense involved in executing the order and the value of any service that the broker-dealer has rendered by reason of his experience and knowledge of the security and the market for the same;
- 25.4.8. To represent that a security is being offered to the customer at the market price or at a price related to the market price, unless the broker-dealer knows or has reasonable grounds to believe that a market for the security exists other than that created or controlled by the broker-dealer or by any person for whom the broker-dealer is acting or with whom the broker-dealer is associated in the distribution, or any person controlling, controlled by or under common control with the broker-dealer;
- 25.4.9. To offer to buy from, or sell to, any person any security at a stipulated price unless he is ready to buy or sell, as the case may be, at said price and under the conditions stipulated at the time of the purchase and sale offer;
- 25.4.10. To exercise any discretionary power in effecting a transaction for a customer's account without first obtaining written authority from the customer, unless such discretionary power relates only to the price at which, or the time when, an order given by a customer for the purchase or sale of a definite amount of a specific security shall be executed, and
- 25.4.11. In an OTC transaction, whether in listed or unlisted securities, where a broker-dealer buys for its own account


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from its customer or sells for its own account to its customer, buying or selling at a price which is not fair, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that the broker-dealer is entitled to a profit; and if the broker-dealer acts as agent for its customer in any such transaction, charging its customer more than a fair commission or service charge, taking into consideration all relevant circumstances, including market conditions, with respect to such security at the time of the transaction, the expense of executing the order and the value of any service the broker-dealer may have rendered by reason of its experience in, and knowledge of, such security and the market therefore.

Section 25.5. In regard to agents, in addition to section 25.3, above, any of the following acts, among others, constitute dishonest or unethical practices:

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- 25.5.1. To borrow money or securities from a customer's account;
 - 25.5.2. To operate a fictitious account;
 - 25.5.3. To operate an account under a fictitious name;
 - 25.5.4. Where the agent is concurrently registered as an agent of more than one broker-dealer, as an agent of a broker-dealer and an agent of an issuer, or as an agent of a broker-dealer and an investment adviser agent, failing to disclose to the customer in writing the multiple capacity in which the agent is acting, and
 - 25.5.5. To effect transactions in securities products concerning which the agent has not taken and successfully passed an examination, pursuant to article 7 of this regulation, which would qualify the agent to sell, offer to sell or buy such products.


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Section 25.6. In regard to investment advisers and federal covered advisers, in addition to section 25.3, above, any of the following acts, among others, constitute dishonest or unethical practices:

- 25.6.1. To borrow money or securities from a client unless the client is a broker-dealer, an affiliate of the investment adviser or a financial institution engaged in the business of lending funds or securities;
- 25.6.2. To lend money to a client unless the investment adviser is a financial institution engaged in the business of lending funds or the client is an affiliate of the investment adviser;
- 25.6.3. To misrepresent to any client or prospective client the qualifications of the investment adviser or any investment adviser agent, representative or employee of the investment adviser, misrepresenting the nature of the advisory services being offered or the fees to be charged for such services, 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;
- 25.6.4. To provide a report or recommendation to any client prepared by a person other than the investment adviser without disclosing that fact. However, the investment adviser may use published research reports or statistical analyses to render advice or order such a report in the normal course of providing its services;
- 25.6.5. To fail to disclose to a client in writing before any advice is rendered any material conflict of interest relating to the investment adviser or any of its investment adviser agents, representatives or employees which could reasonably be expected to impair the rendering of unbiased and objective advice;
- 25.6.6. Guaranteeing that a specific result will be achieved (gain or no loss) as a result of the advice that will be rendered;
- 25.6.7. 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 the contract, the advisory fee, the formula for computing the fee,

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the amount and the manner of calculating the amount of the prepaid fee to be returned in the event of contract termination or non-performance, whether the contract grants discretionary power to the investment adviser and that the investment adviser shall not make an assignment of the contract without the consent of the other party to the contract;

25.6.8. To fail to disclose to any client or prospective client all material facts with respect to a financial condition of the investment adviser that is reasonably likely to impair the ability of the investment adviser to meet contractual commitments to clients, if the investment adviser has express or implied discretionary authority or if the investment adviser requires the prepayment of advisory fees of more than \$500 from such client; and

25.6.9. Failing to disclose to any client or prospective client all material facts with respect to a legal or disciplinary event that is material to an evaluation of the investment adviser's integrity or ability to meet contractual commitments to clients. For purposes of this subsection, the following legal or disciplinary events involving the investment adviser or a management person of the investment adviser that were not resolved in such person's favor or subsequently reversed, suspended or vacated are material for 10 years from the time of the event: (A) A criminal or civil action in a court of competent jurisdiction in which the person was (i) convicted, pled guilty or nolo contendere ("no contest") to a felony or misdemeanor involving an investment-related business, fraud, false statements or omissions, wrongful taking of property or bribery, forgery, counterfeiting or extortion, or was the named subject of a pending criminal proceeding of such nature; (ii) found to have been involved in a violation of an investment-related statute or regulation; or (iii) the subject of any order, fine, judgment or decree permanently or

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temporarily enjoining or otherwise limiting such person from engaging in any investment-related activity and (B) administrative proceedings before the Commissioner, the United States Securities and Exchange Commission or any other state or other regulatory entity in which such person was (i) found to have caused an investment-related business to lose its authorization to do business; or (ii) found to have been involved in a violation of an investment-related statute or regulation or was the subject of an order by the state or federal agency denying, suspending or revoking the authorization of, or such person's association with, an investment-related business or otherwise limiting such person's investment-related activities.

Section 25.7. In regard to investment advisers representatives and investment advisers representatives of federal covered advisers, in addition to section 25.3, above, any of the following acts, among others, constitute dishonest or unethical practices:


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25.7.1. Where an investment adviser representative is dually registered as an investment adviser representative and an agent of an issuer or as an investment adviser representative and an agent of a broker-dealer, failing to comply with the duties which article 12 of this regulation imposes upon investment advisers;


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25.7.2. To fail to disclose to a client in writing before any advice is rendered any conflict of interest relating to the investment adviser representative which could reasonably be expected to impair the rendering of unbiased advice; and

25.7.3. To engage in any of the practices specified in subsections 25.6.1. to 25.6.4., inclusive, and subsection 25.6.6., above.

Section 25.8. Applicability to federal covered advisers and their representatives.

The pertinent provisions of this article 25 apply to federal covered advisers and their representatives to the extent that the Commissioner has grounds to believe that their conduct may be

fraudulent, deceptive or otherwise subject to state laws and regulations.

Section 25.9. Rules for the interpretation of this article.

25.9.1. The acts and practices listed in sections 25.3 to 25.8 of this article do not constitute an exhaustive list.

25.9.2. When interpreting the phrase "dishonest acts and unethical practices", the Commissioner may also consider whether the conduct in question is proscribed by any rule of a national stock exchange or by any SRO.

25.9.3. The definition in this article concerning dishonest acts and practices applies to all entities and persons regulated by this regulation regardless of whether they are broker-dealers, investment advisers, investment advisers representatives, agents, issuers, federal covered advisers or investment adviser representatives of federal covered advisers. Therefore, the enumeration of proscribed practices under separate headings or sections does not exempt any single one of the regulated persons or entities from the restrictions imposed, regardless of their omission from the title of the section under which they appear listed.

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ARTICLE 26. COMMUNICATIONS WITH CUSTOMERS AND THE PUBLIC

Section 26.1. With the exception of those filing and record-keeping requirements which are inconsistent with the provisions of the federal National Securities Market Improvement Act of 1996, every issuer, broker-dealer and agent shall comply in their communications with customers and the public with the standards set forth in NASD Rule 2210 or those rules or regulations adopted to amend or substitute it.

Section 26.2. Every investment adviser and every investment adviser representative shall comply in their communications with their customers and the public with the standards set forth in Rule 206(4)-(1) adopted by the SEC under section 206(4) of the Investment Advisers Act of 1940, or any rule adopted to substitute it.

Section 26.3. The violation of the provisions of this article shall be understood to constitute a practice in violation of section 101(2) of the Act.

ARTICLE 27. RULES APPLICABLE TO BROKER-DEALERS OFFERING BROKERAGE SERVICES FROM THE PREMISES OF, OR UPON REFERRAL BY, A DEPOSITORY INSTITUTION

Section 27.1. Applicability

This article shall apply to brokerage services offered by broker-dealers to Retail Customers (i) in or from the premises of a Depository Institution (including by telephone or mail), and (ii) resulting from a referral by a Depository Institution for which such Depository Institution receives a fee or other benefit for the referral. This article has the effect of supplementing, and not exempting from compliance with, any other provisions of the Act, this regulation or legislation or regulations by any other federal, state or autonomous regulatory entity.

Section 27.2. Definitions

For the purposes of this article, the following terms have the meanings indicated below.


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27.2.1 "Securities Distribution Agreement" - also known as the "Networking Arrangement" or the "Brokerage Affiliate Arrangement". It refers to the contract or agreement between the Depository Institution and the broker-dealer, by means of which the latter (i) provides brokerage services to Retail Customers in the premises of a branch where Retail Deposits are accepted, or (ii) pays the Depository Institution a fee or other benefit for the referral of Retail Customers.


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27.2.2 "Retail Customer" means: (i) any natural person, and (ii) every legal person which may not be considered a sophisticated investor.

27.2.3 "Retail Deposits" means deposits from Retail Customers.

27.2.4 "FDIC" - by its initials, means the "Federal Deposit Insurance Corporation".

- 27.2.5 "Depository Institution" - any entity authorized or which is authorized in the future to engage in the business of receiving Retail Deposits in Puerto Rico, even if their deposits are not insured by the FDIC, PROSAD or any other deposit insurance entity.
- 27.2.6 "PROSAD" - by its assigned initials, means the "Corporación de Seguro de Acciones y Depósitos de las Cooperativas de Ahorro y Crédito de Puerto Rico", ("Insurance Corporation for Deposits and Shares of the Puerto Rico Savings and Loans Cooperatives") organized pursuant to Puerto Rico Act No. 5 of January 15, 1990, as amended.
- 27.2.7 "Brokerage Services" - the business of offer and sale of securities regulated by the Act.
- 27.2.8 "General Securities Advertisement" - an advertisement of a broker-dealer addressed to Retail Customers that does not announce the location of a Depository Institution where the broker-dealer services are or will be provided nor is distributed by the broker-dealer on or from the premises of a Depository Institution.
- 27.2.9. The terms "fee" or "other benefit" as used in this article shall include the benefit, economic or otherwise, derived by the Depository Institution. These terms also include the benefit, economic or otherwise, ultimately derived by an affiliate common to the broker-dealer and the Depository Institution.

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Section 27.3. Conduct required from Broker-dealers.

No broker-dealer may offer Brokerage Services to Retail Customers in or from the premises of a Depository Institution, or pursuant to which services a Depository Institution receives a referral fee or other benefit, unless the following requirements are continuously met:

- (1) Location of Services.

Brokerage Services offered by a broker-dealer shall be rendered from a physical location different from the area where the Depository

Institution receives the Retail Deposits. At all times, the broker-dealer shall identify the Brokerage Services in a clear and prominent manner in such fashion as to distinguish them from the depository activities of the customers of the Depository Institution. The name of the broker-dealer must be clearly shown in the area where the Brokerage Services are rendered. In the limited situation where physical considerations prevent rendering the Brokerage Services from a distinct physical location, the broker-dealer has a heightened responsibility of ensuring appropriate measures are in place to preclude customer confusion.

(2) Securities Distribution Agreements.

Securities Distribution Agreements between a broker-dealer and a Depository Institution shall be in writing and shall establish the responsibilities and obligations of the parties, as well as the compensation agreements. Whenever the broker-dealer provides Brokerage Services from the premises of a Depository Institution, the broker-dealer shall ensure that the agreement stipulates that its supervision personnel, as well as the representatives of the Office of the Commissioner, have access to the premises of the Depository Institution where the broker-dealer offers its services for the purpose of inspecting the books and records and any other pertinent information related to the Brokerage Services.

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Every promotion, advertisement, and/or material or literature originated by the Depository Institution about the Brokerage Services, must be the object of previous authorization by the broker-dealer, which must be stipulated in the Securities Distribution Agreements. The authorization must appear in writing.

(3) Disclosures to customers and written record of receipt.

At or before the time when a broker-dealer opens an account for a customer: (A) at the premises of a Depository Institution where Retail Deposits are received, or (B) following a referral from the Depository Institution, the broker-dealer shall:

- (a) Disclose verbally and in writing that the securities purchased or sold in the transaction with the broker-dealer:

- (i) are not insured by (specify here whether it relates to) FDIC, PROSAD or other deposit insurance entity;
 - (ii) are not deposits nor obligations of the Depository Institution and are not guaranteed by the Depository Institution; and
 - (iii) are subject to investment risks, including the possible loss of the principal invested; and
- (b) Obtain an acknowledged receipt from each customer, during the process of opening the account, showing that the disclosures required by subparagraph (a), above, were made.
- (4) Communications with the Public.
- (a) All confirmations from the broker-dealer, as well as the account statements, shall clearly indicate that the Brokerage Services are, or have been, offered by the broker-dealer and contain the disclosures described on paragraph (4)(b) or the abbreviated disclosures of paragraph (4)(c).
- (b) Every promotion, advertisement and/or sales literature and/or material which (i) announce the location of a Depository Institution where Brokerage Services are provided by a broker-dealer, or (ii) that are distributed by the broker-dealer on or from the premises of a Depository Institution, or (iii) that are addressed to Retail Customers which opened their accounts on the Depository Institution premises or following a referral from the Depository Institution, shall prominently disclose that the securities: (i) are not insured by the FDIC, PROSAD or other deposit insurance entity; (ii) are not deposits or obligations of the Depository Institution and are not guaranteed by the Depository Institution; and (iii) are subject to investment risks, including the possible loss of the principal invested. For the purposes of this section, any General Securities Advertisement of Brokerage Services by a broker-dealer which are or will be provided by the broker-dealer on the premises of a Depository Institution pursuant to a Securities Distribution Agreement, or subject to a referral


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from the Depository Institution, must include the required disclosures. Provided, however, that if the General Securities Advertisement does not constitute an offer or sale of a security under the Act, it is excluded from this requirement. The Commissioner may waive from the required disclosures those General Securities Advertisements of Brokerage Services issued by the broker-dealer acting in the limited context of its underwriter capacity. The abbreviated format described in paragraph (4)(c) of this subsection, may be used to make and provide such disclosures.

- (c) The following abbreviated formats of disclosure may be used by the broker-dealer in the advertisements, promotion and sales materials, including material published or designated for use in radio or television, screens of automatic teller machines ("ATM"), advertisement posters, signs and pamphlets, to comply with the requirements of paragraph (4)(b) of this subsection, provided that such disclosures are displayed in a conspicuous manner:

- * Not insured by (specify here whether the pertinent entity is the) FDIC, PROSAD or other deposit insurance entity);
- * No Bank Guarantee;
- * May lose value; and
- * Offered by:_____.

- (d) The logo of a financial conglomerate may be used, provided it is depicted in such fashion that it does not create confusion as to which entity is offering the broker-dealer services nor as to the non-deposit nature of the products offered. Provided, however, that if confusion is generated as to the non-deposit nature of the offered product, all or some of the disclosures of article 27.3(4)(b) or (c), may be required by the Commissioner regardless of whether such article may not be otherwise applicable.

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ARTICLE 28. SUPERVISION REQUIREMENTS FOR BROKER-DEALERS

Section 28.1. Scope

This article implements the provisions of Article 204(a)(2)(J) of the Act and defines, regarding broker-dealers, the parameters of reasonable supervision required under the Act and any other applicable provision of law or regulation.

Section 28.2. System of supervision required.

Every broker-dealer shall comply with the provisions of NASD Rule 3010 or any rule adopted to amend, supplement or substitute it. The supervision system requirements mandated by this section shall be deemed amended by any amendments made to NASD Rule 3010 or by any rule adopted to amend, substitute or supplement it.

Section 28.3. Supervisor required.

28.3.1. In addition to the above sections, unless otherwise provided by the Commissioner pursuant to section 28.3.2., below, every broker-dealer that maintains one or more Branch Offices in Puerto Rico, must maintain at least one full time supervisor in Puerto Rico.

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28.3.2. The Commissioner, at his discretion, may require an additional number of supervisors or waive the requirements under section 28.3.1. of this article under such conditions as he may deem pertinent including consideration of the public interest.

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Section 28.4. Definitions.

As used in this article, the following terms shall have the following meanings:

- (1) "Supervisor" (including "supervisor") shall mean:
 - (a) any person with the responsibility of supervising agents of broker-dealers, direct or indirectly, or
 - (b) any person with the responsibility for the daily operation and supervision of a broker-dealer's office.
- (2) "Branch" or "Branch Office" (including "branch" and "branch office") means any location identified by any means to the public or customers as a location at which the broker-dealer conducts an investment banking or securities business.

ARTICLE 29. SUPERVISION REQUIREMENTS FOR INVESTMENT ADVISERS

Section 29.1. Scope.

This article implements the provisions of Article 204(a)(2)(J) of the Act and defines, in regard to investment advisers, the parameters of reasonable supervision required under the Act and any other applicable provision of law or regulation.

Section 29.2 Definitions.

As used in this article, the following terms shall have the following meanings:

(1) "Supervisor" shall mean:

(a) any person with the responsibility of directly or indirectly supervising representatives of investment advisers, or

(b) any person with the responsibility for the daily operation and supervision of an investment adviser's branch.

(2) "Branch" or "Branch Office" (including "branch" and "branch office") means any location identified by any means to the public or customers as a location at which the investment adviser or investment adviser representative conducts business authorized by the Act.

(3) "Advertisement" (including "advertisement") means any material published or designed for use in a newspaper, magazine or other publication, radio, television, telephone or recording, video-magnetophonic presentation, signs, posters or movies, telephone directories, electronic media and other public media.

(4) "Sales Literature" (including "sales literature") means any written or electronic communication distributed or made available to customers or the public, which communication does not fall within the parameters of the previous definition for "advertisement". Sales literature includes, but is not limited to, circulars, investigative reports, market letters, compliance reports or summaries, format letters, telemarketing scripts, seminar texts,


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reprints or advertisement abstracts, sales literature or published articles.

Section 29.3 System of Supervision.

Every investment adviser has the responsibility of establishing, executing and maintaining a system for the supervision of the activities of its representatives or agents and of the operations of its branches. Such supervision system shall be designed to assure compliance with applicable laws and regulations.

Section 29.4 Supervision system requirements.

The supervision system required by the preceding section shall provide, as a minimum, the following:

- 29.4.1. The establishment and application of written supervision procedures, copy of which shall be available in each branch doing business;
- 29.4.2. The designation of one or more supervisors who have approved the examination corresponding to the supervision of the business the principal is engaged in and who shall be registered under the applicable provisions of the Act and this regulation. These supervisors shall have the responsibility and authority to supervise an investment adviser in every type of business in which it is engaged and for which an investment adviser license is required;
- 29.4.3. Unless otherwise provided in writing by the Commissioner pursuant to Section 29.4.8., below, every investment adviser that maintains one or more branch offices in Puerto Rico, must maintain at least one full time supervisor in Puerto Rico who shall be a resident of Puerto Rico.
- 29.4.4. The written assignment of each agent or representative of the investment adviser to a supervisor, who shall be responsible of supervising the activities of such agent or representative of investment adviser;
- 29.4.5. Require that reasonable efforts be made to assure that all supervising personnel is qualified by virtue of experience,



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training and pertinent licenses, to comply with the assigned responsibilities;

- 29.4.6. The participation by each agent or representative of investment adviser, either individually or collectively, at least once a year, in an individual interview or collective meeting directed by persons designated by the investment adviser. In said meetings discussions will be held on matters related to compliance with securities laws and regulations pertinent to the activities of the agent or representative of investment adviser. The meeting or interview may be held in conjunction with the discussion of other matters and may be conducted in a central or regional location, or in the place of business of the investment adviser.
- 29.4.7. Establishment of a verifiable mechanism for the review and endorsement by a supervisor of all transactions and correspondence of his agents or representatives.
- 29.4.8. The Commissioner, at his discretion, may require an additional number of supervisors or waive the requirements under section 29.4.3. of this article, under such conditions as he may deem pertinent including consideration of the public interest.

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ARTICLE 30. PARTICIPATION IN PROFITS

No broker-dealer or agent shall carry accounts supervised by, or accept orders from, any person acting under a power of attorney or discretionary authority, whose compensation is based on a percentage of, or other sharing of profits basis.

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ARTICLE 31. SALE OF SECURITIES OVER THE TELEPHONE

Telephone endeavors made by every broker-dealer or agent, related to the securities business, will be subject to the rules of the NASD that govern such telephone communications, which rules are herein incorporated by reference.

ARTICLE 32. COMMISSIONS BY INVESTMENT COMPANIES

It will be illegal to charge or deduct a commission higher than eight and one half percent (8 1/2%) of the amount paid for the purchase of any security issued by an investment company. The provisions of this article shall not apply to any security issued by an investment company that is registered, or that has filed a registration statement, under the Investment Company Act of 1940.

ARTICLE 33. SECURITIES REGISTRATION; NOTICE FILINGS BY ISSUERS OF FEDERAL COVERED SECURITIES.

Section 33.1. Securities Registration by Coordination.

33.1.1. For the purposes of this article, the phrase "Registration of Securities by Coordination" means the registration procedure provided in article 303 of the Act.

33.1.2. The submission of an application for registration of any security by coordination, will be effected pursuant to the procedure established in article 303 of the Act.

33.1.3. The application for registration can be submitted in Form "U-1", or in Office Form S-2, or those forms approved by the Commissioner to substitute them, together with the registration fees established in article 305 (b) of the Act. It must include all the information required under article 303 of the Act, together with the consent to service of process, as required in article 414(g) of the Act. A separate application for registration must be submitted for every investment portfolio, class or security series to be offered. The registration will be effective for one year from the date of filing in the Office of the Commissioner.

Section 33.2. Notice Filings for Federal Covered Securities.

33.2.1. Any security that is a federal covered security under section 18(b)(2) of the Securities Act of 1933 may be offered for sale and sold into, from, or within Puerto Rico upon the Commissioner's receipt of: a copy of the registration statement filed by the issuer with the SEC, a Form "E-1",

Notice of Intention to Sell, or Form NF, Uniform Investment Company Notice Filing Form; a consent to service of process as required in article 414(g) of the Act; and payment of a fee. Such fee shall be in the amount of either one thousand five hundred dollars (\$1,500) or equal to 1/5th of one percent (1%) of the maximum tender price at which the securities are to be offered in Puerto Rico, but in no case less than three hundred and fifty dollars (\$350) nor more than one thousand five hundred dollars (\$1,500).

33.2.2. A security that is exempt from registration under article 402 of the Act shall be exempt from the requirements of this Section 33.2.

33.2.3. A notice filing under this section shall be effective for one year commencing upon the later of the date the form or registration statement, as applicable, is received by the Commissioner or the date the offer is effective with the Securities and Exchange Commission.

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33.2.4. A notice filing may be renewed by filing, prior to the expiration of an effective notice filing, the documents and fees required by section 33.2.1., above, together with a sales report. A sales report need not be filed by any person that paid the maximum notice filing fee of \$1,500. A previously filed consent to service of process may be incorporated by reference in a renewal filing to the extent that the previously filed consent to service of process is currently accurate. A renewal notice filing shall be effective upon expiration of the previous notice filing.

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33.2.5. A notice filing may be amended by notifying the Commissioner of such amendment. If the amendment increases the amount of securities to be offered for sale under the notice filing, it shall be accompanied by a fee equal of 1/5th of 1% of the additional shares to be offered. However, the aggregate amount of the fees paid under section 33.2.1., above, and fees

paid under this subsection, shall in no case be more than one thousand five hundred dollars (\$1,500).

Section 33.3. Notice Filings for Federal Covered Securities under section 18(b)(4)(D) of the Securities Act of 1933.

33.3.1. The issuer of any security that is a federal covered security under section 18(b)(4)(D) of the Securities Act of 1933 is required to file a notice with the Commissioner no later than 15 days after the first sale in Puerto Rico of such federal covered security. This notice shall be filed by submitting a copy of SEC Form D as filed with the SEC with respect to such security, together with a consent to service of process as required in article 414(g) of the Act; and payment of a fee. Such fee shall be in the amount of either one thousand five hundred dollars (\$1,500) or equal to 1/5th of one percent (1%) of the maximum tender price at which the securities are to be offered in Puerto Rico, but in no case less than three hundred and fifty dollars (\$350) nor more than one thousand five hundred dollars (\$1,500).

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33.3.2. A security that is exempt from registration under Article 402 of the Act shall be exempt from the requirements of this section 33.3.

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33.3.3. A notice filing under this section shall be effective for one year commencing upon the date the form is received by the Commissioner.

33.3.4. A notice filing may be renewed by filing, prior to the expiration of an effective notice filing, the documents and fees required by section 33.3.1. together with a sales report. A sales report need not be filed by any person that paid the maximum notice filing fee of \$1,500. A previously filed consent to service of process may be incorporated by reference in a renewal filing to the extent that the previously filed consent to service of process is currently accurate. A renewal notice filing shall be effective upon expiration of the previous notice filing.

33.3.5. A notice filing may be amended by notifying the Commissioner of such amendment. If the amendment increases the amount of securities to be offered for sale under the notice filing, it shall be accompanied by a fee equal of 1/5th of 1% of the additional shares to be offered. However, the aggregate amount of the fees paid under section 33.3.1., above, and fees paid under this subsection, shall in no case be more than one thousand five hundred dollars (\$1,500).

33.3.6. In the case of federal covered securities issued by entities organized under the laws of Puerto Rico, the Commissioner, at his discretion, may require additional information before deeming that a notice filing has been duly effected under this section.

Section 33.4. Notice Filings for Federal Covered Securities under section 18(b)(3) or (4) of the Securities Act of 1933.

33.4.1. A notice filing shall be submitted to the Commissioner for any security that is a federal covered security under section 18(b)(3) or (4) of the Securities Act of 1933, together with a consent to service of process as required in article 414(g) of the Act; and payment of a fee. Such fee shall be in the amount of either one thousand five hundred dollars (\$1,500) or equal to 1/5th of one percent (1%) of the maximum tender price at which the securities are to be offered in Puerto Rico, but in no case less than three hundred and fifty dollars (\$350) nor more than one thousand five hundred dollars (\$1,500). In addition to the above, the Commissioner may require the filing of any document filed with the SEC under the Securities Act of 1933.

33.4.2. A security that is exempt from registration under Article 402 of the Act shall be exempt from the requirements of this Section 33.4.

33.4.3. A notice filing under this subsection shall be effective for one year commencing upon the date the form is received by the Commissioner.

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33.4.4. A notice filing may be renewed by filing, prior to the expiration of an effective notice filing, the documents and fees required by section 33.4.1. together with a sales report. A sales report need not be filed by any person that paid the maximum notice filing fee of \$1,500. A previously filed consent to service of process may be incorporated by reference in a renewal filing to the extent that the previously filed consent to service of process is currently accurate. A renewal notice filing shall be effective upon expiration of the previous notice filing.

33.4.5. A notice filing may be amended by notifying the Commissioner of such amendment. If the amendment increases the amount of securities to be offered for sale under the notice filing, it shall be accompanied by a fee equal of 1/5th of 1% of the additional shares to be offered. However, the aggregate amount of the fees paid under section 33.4.1., above, and fees paid under this subsection, shall in no case be more than one thousand five hundred dollars (\$1,500).

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Section 33.5. Certain waivers with respect to federal covered securities.

Except for the payment of notice filing fees and notice renewal fees, the Commissioner may waive any or all of the provisions of sections 33.2, 33.3, or 33.4 of this article.

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Section 33.6. Registration by Qualification.

33.6.1. For the purposes of this section, the phrase "Registration of Securities by Qualification" means the registration procedure provided for in article 304 of the Act.

33.6.2. To request the registration of securities by qualification, Form "S-3" will be filed, duly completed, with all the information and documents required in articles 304(b), 305(c) and 414(g) of the Act, including the payment of fees specified in article 305(b) of the Act.

33.6.3. The Commissioner may require any other additional information deemed pertinent or necessary in any particular case.

Section 33.7. Registration by Notification.

33.7.1. For the purposes of this article, the phrase "Registration of Securities by Notification" means the registration procedure provided for in article 302 of the Act.

33.7.2. Those securities that comply with all the requirements of article 302 of the Act and the issuers of which have satisfied the service of process requirements of article 414(g) of the Act, may be registered by Notification by submitting Form S-1.

Section 33.8. Other means of registration.


33.8.1. The Commissioner may accept applications for securities registration by coordination and notice filings for federal covered securities electronically, provided that the system used to submit the documents electronically has been previously designated by the Commissioner to receive such applications on his behalf.

33.8.2. The issuer, or any party that files any document electronically with the Commissioner shall be required to comply with all the applicable requirements of the Act.


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ARTICLE 34. PROSPECTUS

Section 34.1. Scope.


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(1) This article governs the prospectus to be used, on or after the effective date of this regulation, in relation to an offer of securities registered through notification, or that must be filed as part of a securities registration statement through qualification and to be used in connection with the securities so registered. It also includes rules regarding the use of plain and clear language in drafting a prospectus. This article also sets forth the circumstances in which a Preliminary Prospectus or a Simplified Prospectus may be used.

(2) Notwithstanding the provisions of the preceding paragraph and with the exception of federal covered securities the issuers of which are organized or incorporated in Puerto Rico, the provisions

of this article shall not apply to any prospectus or other offer document used in connection with a federal covered security.

Section 34.2. Rules on clear and simple language.

34.2.1. The information contained in a prospectus shall be presented in a clear, concise and understandable manner. To achieve this, the following rules on clear and simple language must be observed, as a minimum:

- (i) Use short sentences;
- (ii) Use common, concrete and specific words;
- (iii) Use the active voice;
- (iv) Whenever possible, use tabular presentations or a list of key points ("bullet lists") to present complex information.
- (v) Do not use legalistic language ("legal jargon"), or commercial or highly technical business terms; and
- (vi) Do not use double negatives.

34.2.2. When drafting a prospectus in Spanish, the grammatical rules of the Spanish language shall be observed. When drafting a prospectus in English, the Issuer shall abide by the "plain English principles" as set forth in SEC Release 33-7497 dated January 28, 1998 or any similar document issued thereafter by the SEC.

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Section 34.3. Rules for the preparation of prospectus.

34.3.1. Present the information in sections, paragraphs, and clear and concise sentences. Whenever possible, use short, explanatory sentences or lists of key points ("bullet lists").

34.3.2. Avoid the frequent use of glossaries or defined terms as the main method to explain the information in the prospectus. Define the terms in a glossary or in a definition section of the document, only when their meaning is not clearly revealed by the context in which they are used in the prospectus. Use a glossary only when it will facilitate the comprehension of the disclosure.

34.3.3. All the information required in a prospectus shall be clearly understandable without having to resort to a particular Form

or to the regulations. With the exception of financial statements and the information required in tabular form, the information provided in a prospectus can be expressed in a condensed, summarized manner. Instead of repeating information as notes to the financial statements, reference can be made to other sections of the prospectus where the information is contained.

34.3.4. To enhance the legibility of the prospectus, the rules established in Sections 34.2 and 34.3 are extended to the following sections of the document:

- (i) the front and back covers;
- (ii) the summary section; and
- (iii) the risk factors section.

34.3.5. In the prospectus, the use of photographs, drawings, logos, tables, graphics or other designs are allowed, as long as the design used is not deceiving and the required information is clear. The use of tables, chronographs and other graphic illustrations is favored to present the results of the operations, the statements of condition or other similar financial information in an understandable manner. The graphics and tables should be drawn to scale. All illustrations will be consistent with the financial statements and the non-financial information included in the prospectus. Information which turns out to be deceiving will not be included.


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Section 34.4. Preliminary prospectus.

A preliminary prospectus or a preliminary offering memorandum may be used in those cases for which a registration statement has been filed in relation to a registration by qualification, if it complies with the following requirements:

- (a) The preliminary prospectus or preliminary offering memorandum will comply with all the information requirements provided in this article, except that the offer price, identity of the underwriting syndicate, discounts or commissions, redemption

price, amount of proceeds, interest or dividend rates, redemption prices or any matter that is dependent on the offer price or delivery date may be omitted therefrom if unavailable;

- (b) The preliminary prospectus or preliminary offering memorandum will be submitted as part of the application for registration of said securities;
- (c) On the first page of the preliminary prospectus or preliminary offering memorandum, a legend will be printed in red ("red herring") alluding to the fact that it is preliminary and that it is subject to being completed or modified;
- (d) The Commissioner authorizes in writing the use of the preliminary prospectus or preliminary offering memorandum; and
- (e) No sales or funds shall be received from the investor until the registration statement is effective.

Section 34.5. Simplified Prospectus.

The Commissioner, at his discretion, may require or authorize the use of a Simplified Prospectus, following the principles of the SEC Rule for the drafting and use of a "Summary Prospectus".


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Section 34.6. Registration by Qualification.

A prospectus that is submitted as part of a registration statement of securities registered by qualification must include all the information required in Schedule "A" to this regulation.


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Section 34.7. Registration by Notification.

A prospectus submitted as part of a registration statement of securities registered by means of notification must contain all the information required in Schedule "A" to this regulation, except that the information requested in items 7(d), 10(b), 11 and 12, can be omitted. The use of a prospectus is not required in relation with an offer by a non-issuer registered on behalf of persons that are not in a relationship of control with the issuer under article 302(a)(2) of the Act.

Section 34.8. Printing and Reproduction of prospectus.

The prospectus can be printed or prepared by any similar process, that will result in clear, legible copies. The printing or preparation must be done in clear roman type and in a size of at least 10 point modern type, with the financial statements or other statistical or tabular information in an 8 point minimum type. All the types will be interlined by at least 2 points. Only pursuant to a previous request and approval by the Commissioner may a different format from the one provided herein be used.

Section 34.9. Presentation of information in the prospectus.

34.9.1. The prospectus must include all the information for all the items of Schedule A which are required to be answered. In the case of non-applicable items, the symbol "NA" or the phrase "not applicable" must be used to avoid incompleteness. Answers in the negative must be specified in order to avoid incompleteness.

34.9.2. The Commissioner may require that the prospectus contain information in addition to the information required by the items in Schedule A.

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34.9.3. The prospectus may not include: (1) references to other companies that are not affiliates of the issuer, as a means of comparison, or any other means, (2) excessive discussion of the history and perspectives of the issuer or the history of its officers, or (3) any matter that goes beyond a clear precise presentation, necessary to present the material facts.

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34.9.4. Unless otherwise clearly indicated, it is not necessary to repeat the information given in any part of the prospectus in other sections of that document. When it is considered necessary or convenient to call attention to that information in more than one part of the prospectus, it may be done by means of the corresponding references.

34.9.5. Every prospectus must include in the first part, a table of contents showing the matters covered under the various sections or subdivisions and the number of the page where each section or subdivision starts.

Section 34.10. Exchange Offers.

If the securities subject to registration are to be offered in exchange for securities of any other issuer, the prospectus must include the information required in items 7 to 14, inclusive, in the Commissioner's form with respect to such other issuer, as if the securities of that issuer were being registered.

Section 34.11. Legend required.

Every prospectus shall carry on its cover the following legend in a clear and conspicuous manner:

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS ("OCFI"). THE OCFI HAS NOT MADE ANY DETERMINATION REGARDING THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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Section 34.12. Date of the Prospectus.

34.12.1. The prospectus must be dated as of the effective date of the registration. If it is subsequently amended, it should be dated as of the date of the amendment.

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34.12.2. When a prospectus is used for more than nine (9) months after the effective date of registration, the information contained in the same will not be dated more than 16 months prior to the date of use; provided that such information is known by the user of said prospectus, or that it can be supplied by said user without incurring in unreasonable expenses or efforts.

34.12.3. In addition to the requirements of section 34.12.2., when a prospectus becomes deceptive or inaccurate, or when it omits information on any material aspect, its use shall be discontinued and it shall be revised or supplemented in such manner that it will not be deceiving or inaccurate in any material aspect. Immediately following said revision, three

(3) copies of the revised or supplemented prospectus shall be submitted to the Office. Nothing in this paragraph will be understood as exempting any person from the requirements of article 304(d) of the Act.


Section 34.13. Electronic or other means of filing.


By means of an order to that effect, the Commissioner may authorize the filing of a prospectus under this article by electronic means or by means of other technological developments.

Section 34.14. Distribution of the prospectus.

It is a condition precedent for the continued effectiveness of the registration of securities by qualification, that a prospectus that satisfies the requirements of this article be sent or delivered to every person to whom an offer is made.

ARTICLE 35. ACCEPTABILITY OF UNIFORM FORMS FOR REGISTRATION BY COORDINATION AND NOTIFICATION AND FOR PURPOSES OF NOTICE FILINGS FOR FEDERAL COVERED SECURITIES

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Section 35.1. In the case of registration by coordination pursuant to article 303 of the Act of securities for which a registration statement has been filed pursuant to the Securities Act of 1933, the use of the Uniform Securities Registration Form (Form U-1) for the registration of securities by coordination is hereby authorized. Provided, however, that no instruction, agreement or other matters appearing on said form shall be deemed to modify or otherwise affect the applicability to said registration of the requirements of the Act and of the rules and regulations enacted thereunder.

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Section 35.2 When Form U-1 is used to register common shares in cases where any part of the offer shall be made by or on behalf of the issuer, the agreement by the issuer, required by Form S-2, shall be made part of the registration statement.

Section 35.3. In the case of federal covered securities the Commissioner may accept, for purposes of making a notice filing as provided in Article 33, a Form E-1, Notice of Intention to Sell, or a Form NF,

Uniform Investment Company Notice Filing Form, in lieu of the federal registration documents.

ARTICLE 36. REGISTRATION FEES CHARGED

Section 36.1. Every person who files a registration statement by coordination or notification shall pay a registration fee equivalent to 1/5 of 1 percent of the total dollar amount of the offering in Puerto Rico, but the fees to be paid shall in no case be less than three hundred and fifty dollars (\$350.00) or greater than fifteen hundred dollars (\$1,500.00).


Section 36.2. When registration is by qualification, the registrant shall pay a registration fee equivalent of 1/5 of 1 percent, but in no case shall such fee be less than one thousand dollars (\$1,000.00) or greater than two thousand five hundred dollars (\$2,500.00).

Section 36.3. In all cases described above, a separate registration statement must be filed, and the corresponding fees must be paid, for each class, series or portfolio of registered securities to be offered in Puerto Rico.


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ARTICLE 37. RECOGNIZED SECURITIES MANUALS

Section 37.1. The Commissioner recognizes the following manuals as "Recognized Securities Manuals" for purposes of article 402(b)(2) of the Act:

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1. Moody's Industrial Manual
 2. Moody's Transportation Manual
 3. Moody's Public Utility Manual
 4. Moody's Bank and Finance Manual
 5. Standard and Poor's Standard Corporation Descriptions

Section 37.2. The Commissioner may, by means of an order to those effects, amend the above list when, in his opinion, it does not adequately reflect the situation of the investment industry.

ARTICLE 38. QUARTERLY REPORTS ON REGISTERED SECURITIES

Section 38.1. Except as provided in section 38.2., below, during the period in which the registration of securities by notification or qualification is effective, the person who filed the registration statement shall file quarterly reports showing the progress of the offer and which contain the information required in Form S-4.

Section 38.2. If the offer of securities registered by means of notification or qualification has been completed or finished, the person who filed the registration statement may be released from the requirement of filing subsequent reports pursuant to section 38.1. if he notifies the Commissioner in a final written report, of the fact that the offer has been completed or finished. The final report may be filed within ten (10) days from the date in which the offer was completed or finished.

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ARTICLE 39. CERTIFICATION OF FINANCIAL STATEMENTS

Section 39.1. Balance Sheet of Issuer.

39.1.1. The applicant registering securities by notification or qualification shall file a balance sheet of the issuer as of a date within four (4) months prior to the date of filing the registration statement. This balance sheet need not be certified.

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39.1.2. If the balance sheet required by subsection 39.1.1. is not certified, there shall be filed in addition a balance sheet certified by an independent certified public accountant as of a date within one (1) year prior to the date of filing, unless the fiscal year of the issuer has ended within four (4) months prior to the date of filing, in which case the balance sheet certified by an independent certified public accountant may be as of the end of the preceding fiscal year.

Section 39.2 Profit and Loss Statements and Analysis of Surplus of the Issuer.

The applicant shall file a profit and loss statement and an analysis of surplus of the issuer for each of the three fiscal years as required by article 34 and Schedule A, preceding the date of the last balance sheet filed, and for the period, if any, between the close of the latest of such fiscal years and the date of the last balance sheet filed. These statements shall be certified by an independent certified public accountant up to the date of the last certified balance sheet filed.

ARTICLE 40. DEPOSIT IN ESCROW OF CERTAIN SECURITIES

Section 40.1. This article shall apply when the issuer of the securities to be registered by coordination or qualification has not had a net income from operations, of the character in which the issuer intends to engage, of at least \$10,000 in one of its last two (2) fiscal years prior to the date of filing the registration statement; and

(i) when a promoter has received, or is to receive, from the issuer any security issued within the past three (3) years, or to be issued, for a consideration substantially different from the public offer price or to any person for a consideration other than cash, or

(ii) when any person has received, or is to receive, from the issuer any security issued within the past three (3) years, or to be issued, for a consideration other than cash.

Section 40.2. Deposit in escrow.

In the cases contemplated in section 40.1, above, it is required as a condition to registration that any such security issued within the past three (3) years, or to be issued, to any such promoter or to any person under the circumstances therein described, be deposited in escrow for a period of thirteen (13) months from the effective date of the registration statement or for the duration of the offer, whichever is longer.


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ARTICLE 41. ADVERTISEMENT OF SECURITIES

Section 41.1. Before the effective date.

It shall be unlawful, at any time after filing but before the effective date of the registration, for any person offering securities for sale in Puerto Rico, unless the security or the transaction is exempted under article 402 or is a federal covered security, to cause the publication of any advertisement, article or any other type of communication, including, among others, the Internet or other electronic media, newspapers, magazines and periodicals, or to cause the making of a broadcast by radio or television in regard to the securities being offered in Puerto Rico, if the advertisement, article, communication or broadcast, contains more than the following information:

1. Name of the issuer of such security;
2. Type of security, amount offered, and the per unit offer price to the public;
3. Identity of the general type of business of the issuer;
4. A brief statement of the general character and location of the issuer's property; and
5. Name of the underwriters and name and address, telephone number and electronic address of the person or persons who will furnish a copy of the prospectus filed as part of an effective registration statement, and who will take orders for the purchase of the security.

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Section 41.2. Preliminary prospectus excluded.

The provisions of this article shall not apply to a preliminary prospectus filed under section 34.4 of this regulation.

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ARTICLE 42. DELIVERY OF THE PROSPECTUS

Section 42.1.

A current prospectus offering a registered security for sale, which is filed as part of an effective registration statement pursuant to article 302 (registration by notification) or 304 (registration by qualification) of the Act, shall be delivered to each person to whom an offer of such security is made, unless the security or

transaction pursuant to which the security is offered is exempt under article 402 of the Act.

Section 42.2. Notwithstanding the provisions of section 42.1., above, with respect to offers only, any preliminary prospectus permitted to be used by Section 34.4 hereof shall be deemed to satisfy the prospectus delivery requirements of this section so long as a final prospectus is delivered to the investor prior to any of the events described in paragraphs (2), (3) or (4) of section 42.3., below.

Section 42.3. The prospectus shall be delivered before or together with the first of the following events, whichever occurs first:

- (1) The first written offer made to the person (other than by means of a public announcement) by, or for the account of the issuer or any other person on whose behalf the offer 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 by, or on account of any such person,
- (3) Payment pursuant to any such sale, or
- (4) Delivery of the security pursuant to any such sale.

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ARTICLE 43. FILING OF SALES LITERATURE

Section 43.1. Every person intending to use any prospectus, pamphlet, circular, form letter, advertisement or any other sales literature or advertisement material, or any other information used with the purpose of offering or advertising the sale of a security, either in writing or by television or radio broadcast, or any other method of broadcasting, including the Internet, in connection with the offer of a security, intended for dissemination to more than ten

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(10) persons in Puerto Rico, including clients or prospective clients of an investment adviser, shall file a copy thereof with the Commissioner, five(5) business days prior to use.

Section 43.2. The filing requirement established in section 43.1., above, shall not apply in the following cases:

- (1) a copy of the sales literature or material is already on file with the Commissioner;
- (2) the literature or material is distributed by a federal covered adviser;
- (3) the security is a federal covered security; or
- (4) the security or transaction is exempted under article 402 of the Act.

ARTICLE 44. OFFERS THROUGH THE INTERNET

Offers of securities extended through the Internet, or a similar system, shall be exempted from articles 301 and 305 of the Act, as amended, if the following conditions are met:

1. The offer extended through the Internet or similar system indicates, directly or indirectly, that the securities are not being offered to Puerto Rico residents;
2. The offer extended through the Internet or similar system is not specifically addressed to any person in Puerto Rico; and
3. No sales of the mentioned securities are executed in Puerto Rico as a result of the offer through the Internet or similar system, until such securities are registered or have made a notice filing pursuant to the requirements established in the Uniform Securities Act of Puerto Rico and this regulation.

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ARTICLE 45. TESTING THE WATERS

Section 45.1. Scope of rules in this article.

The rules established in this article shall govern the procedure to solicit indications of interest in regard to certain security before

filing the application for registration of such security in the Office.

Section 45.2. Exemption from article 301 of the Act.

A verbal or written communication by the issuer, the only purpose of which is to solicit indications of interest in receiving a prospectus or offering circular for certain security, shall not constitute an offer or sale, and shall be exempt from article 301 of the Act, if each and every one of the following conditions are met:

- (1) The issuer is or will be a business entity organized under the laws of the Commonwealth of Puerto Rico. The issuer does not intend to operate a Blind Investment Pool ("Blind Pool") or any other type of business or property the nature of which can not be specified at the moment. The issuer is not an Investment Company or Capital Fund.
- (2) The issuer intends to register the security with the Office pursuant to the provisions of the Act.
- (3) Ten (10) days before commencing the solicitation of indications of interest under this Article, the issuer shall file with the Commissioner a Request for Authorization to Solicit Indications of Interest in the Form provided by the Office, together with any material which will be used to solicit indications of interest, and a check for one hundred dollars (\$100.00) payable to the Secretary of the Treasury to cover charges for processing this request.
- (4) Any amendment or additional material used to solicit the indications of interest shall be filed with the Office at least five (5) days before being used, for review and approval by the Commissioner.
- (5) The solicitation of indication of interest may not be carried out through any media or means of massive communications, such as the press, radio, television, Internet or similar system.

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- (6) During the period in which indications of interest are solicited, it shall be unlawful to solicit or accept money or to execute agreements for the purchase of securities.
- (7) No sales of the securities in question may be executed until:
 - (i) the application for registration of the securities is filed with, and the same is declared effective by, the Commissioner, and
 - (ii) three (3) business days have elapsed from the delivery to the potential investor of copy of the prospectus or offering circular.

Section 45.3. Information and legends required.

Every material or communication related to the solicitation of indications of interest in securities shall include the name of the issuer and the identity of its chief executive officer, a general description of the business and products or services of the issuer and the following legends:

- (1) Money or other types of purchase obligations are not accepted and will not be accepted.
- (2) No offer or sale of these securities will be made until an offering circular or prospectus, which includes complete information about the issuer and the offer, is delivered.
- (3) An indication of interest made by a potential investor does not involve any type of obligation or promise by such person.
- (4) This solicitation of indications of interest is done pursuant to an exemption from registration granted under a regulation issued by the Office of the Commissioner of Financial Institutions under the Uniform Securities Act of Puerto Rico. No offer or sale of these securities may be executed until an application for registration is filed and the same is declared effective by the Commissioner of Financial Institutions.

Section 45.4. Discretion of the Commissioner.

The Commissioner may, in connection with any solicitation for indications of interest made pursuant to this article, impose

additional conditions to grant this exemption, or exempt it from any of the requirements provided in this article.

ARTICLE 46. TRANSACTIONS EXECUTED PURSUANT TO RULE 506 OF REGULATION "D" OF THE SEC.

Section 46.1. Transactions by an issuer involving the offer or sale of the securities of such issuer, shall be exempt from the registration requirements of article 301 of the Act, if the same are executed pursuant to Rule 506 of SEC's Regulation D (17 C.F.R. §§ 230. 506) and any rule approved by the SEC to amend or substitute it, and the conditions set out in section 46.2., below, are met.

Section 46.2. The exemption provided in section 46.1. is subject to the following conditions:

- (1) The information required in SEC Form D-1, or its future substitute, must be filed with the Commissioner;
- (2) Copy of SEC Form D-1, or its substitute, as filed in the SEC must be filed with the Commissioner, together with the consent to service of process required by article 414(g) of the Act;
- (3) The fees specified in article 305 of the Act must be enclosed with the documents required by paragraph (2), above.

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ARTICLE 47. TRANSACTIONS WITH CERTAIN ACCREDITED INVESTORS OF SECURITIES INCLUDED IN "ACE-NET" LISTINGS.

Section 47.1. Transactions by an issuer involving the offer or sale of securities of such issuer which are included in the listings of "ACE-NET", shall be exempt from the registration requirements of article 301 of the Act, if they are executed pursuant to the provisions of this article and, in addition, if the issuer files with the Commissioner an application to that effect, together with the consent to service of process required by article 414(g), and if the fees specified in article 305 of the Act are enclosed with the application.

Section 47.2. The exemption provided in section 47.1. is subject to the following conditions:

- (1) The sale of securities under this article may only be executed to persons qualifying as "Accredited Investors" as that term is defined in article 401 of the Act.
- (2) The exemption provided by this article is not available to an issuer who is in a developmental stage and does not have a business plan or a specific purpose for the capital raised from the sale of the securities.
- (3) The exemption provided by this article is not available to an issuer who has indicated that its business plan is to participate in a merger with, or the acquisition of, unidentified companies or any other unidentified person or entity.
- (4) The issuer must have the reasonable belief that all purchasers are buying with the purpose of investing and not with the intention to distribute the security or to sell the security in connection with its distribution. The resale of a security sold pursuant to this exemption within twelve (12) months from the date of the sale, shall be presumed to have been executed with the intention to distribute and not for investment purposes. An exception from the above is made in the case of the resale executed pursuant to an effective registration statement under the Act or in the case of a resale to an Accredited Investor pursuant to the applicable provisions of the Act.
- (5) This exemption shall not be available to an issuer if it, or any of the issuer's predecessors, or any affiliated issuer, or any of the directors, officers, general partners, owners of ten percent (10%) or more of any class of its equity securities, or any of the issuer's promoters who at that time have any connection, in whatsoever capacity, with the issuer, or any underwriter of the securities to be offered, or any partner, director or officer of said underwriter:

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- (i) has, within five (5) years prior to the date in which it request the exemption provided in this article, filed a registration statement which is the object of an order still in effect, issued by any State securities regulator or by the SEC, suspending the registration;
- (ii) has, within five (5) years prior to the date in which it requests the exemption provided in this article, been convicted for any crime in connection with the offer, purchase or sale of any security, or which involves fraud or deceit;
- (iii) is subject to any order or judgment, issued within five (5) years prior to the date in which it requests the exemption provided in this article, by reason of having been found engaged in fraud or deceit in connection with the purchase or sale of any security; or
- (iv) is subject to any order, judgment or decree from any court with subject matter jurisdiction, issued within the last five (5) years prior to the date in which it requests the use of the exemption provided in this article, which order, either temporary, preliminary or permanent in nature, prohibits said party from engaging or continuing to engage in any practice or conduct which involves fraud or deceit in connection with the purchase or sale of any security.

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- (6) A general notice of the proposed offer may be effected using any legal medium.
- (7) Unless the Commissioner authorizes the inclusion of additional information, the general notice may only include the following information:
 - (i) Name, address and telephone number of the issuer of the securities;
 - (ii) Name, brief description and price (if known) of any security to be issued by the issuer;

- (iii) A brief description of the business of the issuer, in twenty five (25) words or less;
- (iv) Type, number and aggregate amount of securities offered;
- (v) Name, address and telephone number of the person to call in order to obtain additional information, and
- (vi) A statement to the effect that:
 - (a) Sales will be made only to Accredited Investors;
 - (b) No money or other consideration is solicited nor will it be accepted by reason of said general notice; and
 - (c) The securities have not been registered in, nor approved by, any State securities agency or the SEC, and they are being offered and sold pursuant to a registration exemption.
- (8) In connection with an offer, the issuer may provide information in addition to that included in the general notice, under paragraphs (6) and (7) above, if such information:
 - (i) is transmitted through an electronic data base which is restricted to persons which have been previously qualified as Accredited Investors; or
 - (ii) is delivered after the issuer reasonably believes that the prospective purchaser is an Accredited Investor.
- (9) Solicitation of business over the telephone shall not be allowed unless, before originating the call, the issuer has the reasonable belief that the prospective purchaser is an Accredited Investor.
- (10) The dissemination of the general notice of offer proposed to persons who are not Accredited Investors shall not disqualify the issuer from using the exemption provided in this article.
- (11) The Issuer shall file with the Office, a notice of the transaction, together with the consent to service of process required by article 414(g) and payment of the fees specified in article 305 of the Act, within fifteen (15) days after the

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first sale in Puerto Rico of the security exempted under the provisions of this article.

(12) The registration exemption provided in this article does not exempt any party to the transaction of said securities from compliance with the remaining provisions of the Act or from the orders and regulations issued under said Act.

(13) The Commissioner may deny the use of the exemption provided in this article if he concludes that the protection of the public interest or of the investors justify such denial.

ARTICLE 48. REGISTRATION OF SMALL CORPORATE OFFERS

Section 48.1 Scope of article.

The rules in this article provide for the registration of small corporate offerings which are exempt from federal registration under Rule 504 of SEC Regulation D, SEC Regulation A, or Section 3(a)(11) of the of the 1933 Act, and are consistent with public investor protection and in the public interest.

Section 48.2. Commissioner's discretion.

The Commissioner may, in his discretion, waive any standard set forth in this article or impose substantive standards not contained in this article.

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Section 48.3. Definition of special terms used in this article.

48.3.1. For the purposes of this article, "Small Corporate Offering Registration Form", "SCOR", and "Form U-7" means the Small Corporate Offering Registration Form adopted by the NASAA on April 28, 1996, to facilitate the registration of offerings made pursuant to SEC Rule 504, 17 C.F.R. §230.504, promote uniformity in registration and maintain investor protection standards.

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48.3.2. For purposes of this article, "issuer" shall not include the following:

- (1) Any individual or form of business organization which is not a corporation;

- (2) Any corporation which is not organized under the laws of Puerto Rico;
- (3) Any person engaged in mining, petroleum exploration or production or other extractive industry business;
- (4) Any person subject to the reporting requirements of Section 13 or Section 15 of the 1934 Act;
- (5) Any investment company described in the Investment Company Act of 1940, as amended;
- (6) Stock holding companies, investment companies, or companies which supervise the management of other companies;
- (7) Issuers with capital structures with more than one type of shares;
- (8) Investment portfolios engaged in the business of trading or in goods ("Commodity pools");
- (9) Equipment leasing programs;
- (10) Real estate sale or leasing programs.

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Section 48.4. Applicability

The requirements contained in this article shall apply exclusively to registrations that are exempt from federal registration under:

- (1) Rule 504 of SEC Regulation D, (2) SEC Regulation A, or (3) Section 3(a)(11) of the 1933 Act.

Section 48.5. Availability

48.5.1. The rules in this article shall only be available to the issuer of the securities. The person filing the registration statement on SCOR shall be the issuer or one acting on behalf of the issuer, and shall not be: (1) a selling security holder; (2) a purchasing underwriter in a firm commitment underwriting; or (3) any person otherwise seeking to register the securities for resale in a secondary distribution.

48.5.2. In addition to the provisions of subsection 48.5.1., above, to be able to register securities by means of SCOR, each and every one of the following requirements must be present:

- (1) The offer may not be for a "Blind Pool" or for any other offer in connection with which the issuer is unable to identify the specific business or asset to which it will dedicate the product of the offer;
- (2) The securities to be registered by means of SCOR shall only consist of equity securities or debt securities. In the case of common stock, the offering price shall equal or exceed five dollars (\$5) per share, and if the securities to be registered consist of options, warrants or rights for common stock such \$5 limitation on the price per share shall apply to the exercise price. Where the securities to be registered are convertible into common stock, the conversion price shall be at least \$5 per share.
- (3) The issuer shall undertake, in conjunction with the SCOR registration, to refrain from splitting its common stock for two years following effectiveness of the SCOR registration under this article; provided that nothing in this subsection shall preclude the issuer from taking such action in connection with a subsequent registered public offering where the prior written consent of the Commissioner is obtained.
- (4) The aggregate offering price, within or outside Puerto Rico, of the securities to be registered by means of SCOR shall not exceed one million dollars (\$1 million) less the aggregate offering price for all securities sold within the 12 months prior to the commencement of, and during, the offering of the securities (1) under SEC Rule 504, 17 C.F.R. § 230.504; (2) in reliance on any exemption under Section 3 (b) of the 1933 Act; or (3) in violation of Section 5 of the Securities Act of 1933.

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Section 48.6. Limitations.

Registration by means of SCOR shall not be available for the securities of any issuer if the issuer or any of its officers,

directors, holders of ten percent (10%) or more of its shares ("ten percent stockholders"), promoters or any selling agents of the securities to be offered, or any officer, director or partner of the selling agent:

- (1) Has filed a registration statement that is the subject of a currently effective registration stop order entered pursuant to the securities laws of the United States or any of its States within five (5) years prior to the filing of the SCOR application for registration;
- (2) Has been convicted within five (5) years prior to the filing of the SCOR registration application of any felony or misdemeanor in connection with the offer, purchase or sale of any security, or any crime involving fraud or deceit;
- (3) (A) Is currently subject to any State or federal administrative enforcement order or judgment entered by the securities administrator of a State or by the SEC within five (5) years prior to the filing of the SCOR application for registration, or
(B) Is subject to any State or federal administrative enforcement order or judgment in which fraud or deceit was found, including, but not limited to, making untrue statements of material fact and omitting to state material facts, and the order or judgment was entered or obtained by the State or federal government within five(5) years prior to the filing of the SCOR application for registration;
- (4) Is subject to any State or federal administrative enforcement order or judgment, including those issued by an SRO, prohibiting, denying or revoking the use of any exemption from registration in connection with the offer, purchase or sale of securities for which registration is sought by means of SCOR;
- (5) Is currently subject to any order, judgment or decree which
(A) was entered within five (5) years prior to the filing of

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the SCOR application for registration by any court of competent jurisdiction and

(B) temporarily, preliminarily, or permanently restricts, restrains, or enjoins such party 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 any State.

- (6) Is subject to any order, judgment or decree, including those issued by an SRO, prohibiting it from executing transactions related to the negotiation of securities.

Section 48.7. Documents to be filed with the Commissioner

In addition to filing a duly executed Form U-7 (SCOR), the registrant shall file the following documents and fees with the Commissioner as part of its SCOR application:

- (1) A copy of Form D as filed with the SEC claiming exemption of the offering from registration under the 1933 Act pursuant to Rule 504 of Regulation D, 17 C.F.R. §230.504. Such filing shall be made with the Commissioner at the same time it is made with the SEC;
- (2) Form U-1, Form U-2, Form U-2A, all of which shall have been duly executed by the issuer;
- (3) The exhibits required by Form U-7;
- (4) The issuer shall prepare and file the following financial statements in connection with its SCOR application:
 - (a) For the issuer and its consolidated subsidiaries, a balance sheet as of the end of the most recent fiscal year. If the issuer has been in existence for less than one fiscal year, the issuer shall file a balance sheet as of the date within 135 days of the filing of the SCOR registration statement in Puerto Rico. If the first effective date of registration, as set forth on the cover page of the SCOR application, is within 45 days following the end of the issuer's fiscal year and financial statements for the most recent fiscal year are not available, the balance sheet may be

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as of the end of the preceding fiscal year and shall include an additional balance sheet as of an interim date at least as current as the end of the issuer's third fiscal quarter of the most recently completed fiscal year;

(b) For the issuer, its consolidated subsidiaries and predecessors, statements of income and cash flow and statements of changes in stockholders' equity for the last fiscal year preceding the date of the most recent balance sheet filed pursuant to subdivision (a) of this section, or such shorter period as the issuer, including any predecessors, has been in existence;

(c) Statements of income and cash flow for any interim period between the latest reviewed or audited balance sheet and the date of the most recent interim balance sheet being filed;

(d) If, since the beginning of its last fiscal year, the issuer has acquired another business, the issuer shall file a pro forma combined balance sheet as of the end of the fiscal year. The issuer shall file a pro forma combined statement of income as if the acquisition had occurred at the beginning of the issuer's last fiscal year if any of the following apply:

(i) The investments in, and advances to, the acquired business by the issuer and its subsidiaries exceed 20 percent of the issuer's assets on its consolidated balance sheet at the end of the issuer's last fiscal year;

(ii) the proportionate share of the total assets, after inter-company eliminations, of the acquired business held by the issuer and its subsidiaries exceeds 20 percent of the assets on the issuer's consolidated balance sheet; or

(iii) the equity of the issuer and its subsidiaries in income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principles of the acquired business exceeds

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20 percent of such consolidated income of the issuer for the last fiscal year.

(e) Financial statements shall be prepared in accordance with generally accepted accounting principles. If the issuer has not conducted significant operations, statements of receipts and disbursements shall be included in lieu of statements of income;

(f) Interim financial statements may be unaudited. All other financial statements shall be audited by independent certified public accountants;

(g) Financial statements shall reflect all stock splits, including reverse stock splits, stock dividends and recapitalization, even if they have occurred since the date of the financial statements;

- (5) Include the payment of one hundred dollars (\$100) as fees for processing the application for registration by means of SCOR;
- (6) Security sales agreement;
- (7) Articles of incorporation of the issuer, together with its by-laws and amendments thereto;
- (8) Copy of the resolution of the board of directors of the issuer authorizing the issuance of the securities and the terms in which these will be offered;
- (9) Any contract or agreement which contains the terms and conditions on the securities to be offered;
- (10) Specimen of the securities to be offered;
- (11) Issuer's consent to service of process, as provided in article 414(g) of the Act;
- (12) Copy of any prospectus, pamphlet, circular, form letter, advertisement or other sales literature intended as of the effective date of the registration to be used in connection with the offering. Any written announcement of the offering shall contain no more than the following: (1) The name of the issuer; (2) a characterization of the issuer as indicated on



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the cover page of the SCOR registration statement; (3) the address and telephone number of the issuer; (4) a brief indication, in 10 words or less, of the business or proposed business, of the issuer; (5) the number and type of securities to be offered and the offering price per security; (6) the name, address and telephone number of any selling agent authorized to sell the securities; (7) a statement that the announcement does not constitute an offer to sell or solicitation of an offer to purchase and that any such offer shall be made by official prospectus or disclosure document; (8) how a copy of the prospectus or disclosure document may be obtained; (9) the issuer's corporate logo; and (10) clip and return coupons, if any, use of which would facilitate the provision of a copy of the prospectus or disclosure document to prospective purchasers;


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- (13) Escrow Agreement for deposit of the funds to be received for this offer or request for a waiver by the Commissioner from the requirement provided in section 48.8. to establish an escrow;
- (14) Legal opinion from the issuer's attorney to the effect that the securities to be offered have been duly authorized by the corporation and meet all the requirements and formalities necessary for this type of offer; and
- (15) Any other document, material or information which the Commissioner deems necessary.


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Section 48.8. Escrow.

48.8.1. If the proposed business of the issuer requires a minimum amount of proceeds to commence or proceed with the business in the manner proposed, an escrow shall be established with a bank or other similar depository institution acting as independent escrow agent in which all proceeds received from investors shall be immediately deposited until the minimum amount of proceeds has been raised.

48.8.2. The date at which the funds shall be returned by the escrow agent if the minimum proceeds are not raised shall not be later than one year from the date of effectiveness of the SCOR registration in Puerto Rico.

Section 48.9. Post registration endeavors.

Once the Form U-7 is completed and filed, and the SCOR registration is declared effective by the Commissioner, the issuer shall send or give to each offeree of the security a copy of Form U-7, excluding instructions, which shall serve as the prospectus for purposes of this article and which shall be provided to each offeree 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; (2) the confirmation of any sale made by or for the account of such person; (3) payment pursuant to any such sale; or (4) delivery of the security pursuant to any such sale, whichever first occurs.

ARTICLE 49. REMEDIES AND SANCTIONS.

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Any person who has violated or is about to engage in any act or practice which constitutes a violation of any provision of the Act, this regulation, or any rule or order of the Commissioner issued pursuant to the Act or this regulation, shall be subject, among others, to the remedies and sanctions provided in the Act and the remedies and sanctions provided in Act Number 4 of October 11, 1985, as amended.

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ARTICLE 50. SURVIVAL

If any article, section, subsection, clause, paragraph, sentence, word or part of this regulation were declared null by a court of competent jurisdiction, said declaration shall not affect nor invalidate the rest of the regulation.

ARTICLE 51. REPEAL

Section 51.1. The following regulations are repealed:

- (1) Number 1007, titled "Regulation of the Uniform Securities Act", issued by the Treasury Department on December 18, 1963, and filed with the State Department on December 27, 1965.
- (2) Number 3217, titled "Amendment to the Regulation issued under the Puerto Rico Uniform Securities Act, Number 60, enacted on June 18, 1963, to add a new Rule 3A, on Registration, Renewal, Transfer and Cessation of Agents through the Central Registration Depository System (CRD)", issued by the Secretary of the Treasury on June 13, 1985, and filed with the State Department on June 20, 1985.

Section 51.2. The following Circular Letters are repealed:

- (1) "Public Policy on Exemptions for Limited Issues of Securities", dated May 3, 1994, addressed to the persons and entities interested in doing limited issues of securities.
- (2) Circular Letter No. 94-95-01, dated August 6, 1994, about "Periodic Inspections."

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ARTICLE 52. RULES OF INTERPRETATION

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Section 52.1. This regulation shall be interpreted in a manner which effectively advances the goals of supervising, scrutinizing and regulating the securities industry, in such fashion as to guarantee a greater protection for the investor.

Section 52.2. The rules issued by the SEC and the NASD pursuant to the provisions of the several securities and investment advisers act of the United States, as they are mentioned and referred to in this regulation and including any rules subsequently adopted to amend, replace or supplement them, are hereby incorporated by reference and made part of this regulation.

Section 52.3. The Commissioner shall simultaneously file the Spanish and English versions of this regulation with the Puerto Rico State Department. In cases of conflict between the text in Spanish and the English version of this regulation, the English version shall prevail.

ARTICLE 53. EFFECTIVE DATE

Section 53.1. Except as provided in section 53.2., below, this regulation shall become effective thirty (30) days after it has been filed in the State Department of Puerto Rico, pursuant to the provisions of the Uniform Administrative Procedure Act.

Section 53.2. The prospectus requirements provided in Article 34 and Schedule A of this regulation shall become effective ninety (90) days after it has been filed in the State Department of Puerto Rico.

APPROVED In San Juan, Puerto Rico, on January 18, 2000.

APPROVED

Xenia Vélez Silva
Secretary of the Treasury

APPROVED

Joseph P. O'Neill
Commissioner of Financial
Institutions

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SCHEDULE A

INFORMATION REQUIRED IN THE PROSPECTUS

ITEM 1. INFORMATION REQUIRED ON OUTSIDE FRONT COVER PAGE OF THE PROSPECTUS.

- (a) Name and address of the issuer and the state and date of its incorporation or organization.
- (b) The class or classes of securities to be registered, giving the number of shares and the par value per share with respect to capital stock and the total principal amount and amount per unit with respect to debt securities. Applicable commissions and discounts.
- (c) State in bold face type: "These securities entail investment risk".
- (d) The legend required by Section 34.11 of this regulation.
- (e) A cross-reference to the section of the prospectus where the risks to the investor including risk associated with leverage, if any, involved in the investment are discussed. The cross-reference should include the page number where the risk factor and, more specifically the leverage sections, commence. The Commissioner may, at his discretion, require that the front page of the prospectus indicate the pages containing discussion of risk factors or any other information deemed important.
- (f) Distribution Spread. - The information called for by the following table shall be given, in substantially the tabular form indicated, as to all securities being offered which are to be offered for cash (estimate, if necessary).

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	Price to public	Underwriting discounts and commissions	Proceeds to issuer or other person.
Per unit			
Total			

- (g) The prospectus must be dated on the effective date. If it is subsequently amended, it shall be dated as of the date of the amendment.
- (h) The information required by the Commissioner, as he deems necessary to make an informed decision on the matter being considered.

Instructions:

1. Any variation from the price set forth in the first column of the table at which any proportion of the offer is to be made to any person or class of persons other than the underwriters shall be disclosed following the table with a reference thereto in the first column of the table. Specify the person or class and the proposed offer price to such person or class.
2. The term "commissions" means all cash commission or discounts paid or to be paid, directly or indirectly, by the issuer or selling security holders to the underwriters in connection with the sale of the security to be offered. A commission paid or to be paid in connection with the sale of such security by a person in which the issuer has an interest or which is controlled or directed by, or under common control with the issuer, shall be deemed to have been paid by the issuer. Only commissions paid by the issuer or selling security holders are to be included in the table. Commissions paid by other persons shall be set forth following the table with a reference thereto in the second column of the table.
3. If securities, contracts or anything else of value (other than cash) are to accrue to the underwriters in connection with the offer, the amount and nature of such considerations shall be set forth following the table with a reference thereto in the second column of the table.
4. If any finder's fees are to be paid in connection with the offer, the name of each recipient thereof, together with the amount and nature of the fee, shall be set forth following the table with a reference thereto in the second column of the table.
5. If the underwriting discounts or commissions are variable, set forth the maximum and minimum amounts in the second column of the table and set forth the maximum and minimum proceeds in the third column of the table. The basis for the determination of such discounts or commissions shall be set forth following the table with a reference thereto in the second and third columns of the table.

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6. An estimate of the aggregate selling expenses (other than underwriting discounts and commissions and finders' fees) payable by the issuer or selling security holders shall be set forth following the table with a reference thereto in the third column of the table. Such estimate must include printing, legal, engineering, accounting and other charges or expenses.
7. If it is impracticable to state the price to the public, the method by which it is to be determined shall be explained. In addition, if the securities are to be offered at the market, indicate the market involved and the market price as of the latest practicable date.
8. If any of the securities being registered are to be offered for the account of security holders, refer on the outside front cover page of the prospectus to the information required by Item 9.

ITEM 2. USE OF PROCEEDS.

- APPROVED**
- (a) State the principal purposes for which the net proceeds to the issuer from the offer are to be used, the approximate amount to be used for each such purpose and the order of priority in which the proceeds are to be used for each such purpose.
 - (b) Describe any arrangement for the return of funds to subscribers if all of the securities to be offered are not sold; if there are no such arrangements, so state.
- APPROVED**

Instructions:

1. Details of proposed expenditures are not to be given: for example, there need be furnished only a brief outline of any program of construction or addition of equipment.
2. Include a statement as to the use of the actual proceeds if they are not sufficient to accomplish the purposes. Set forth the order of priority in which they will be applied.
3. If any material amount of other funds are to be used in conjunction with the proceeds, state the amounts and sources of such other funds.
4. If any material amount of the proceeds is to be used to acquire assets, in any manner other than in the ordinary

course of business, briefly describe the assets and give the names and addresses of the persons from whom they are to be acquired. State the purchase price of the assets, the name of any persons who have received or are to receive commissions in connection with the acquisition, the amount of such commissions, and any other expense in connection with the acquisition.

ITEM 3. COST OF EQUITY SHARES HELD BY ORGANIZERS

- (a) If the issuer is a corporation which was organized within the last (5) years, show the cost per share to officers, directors, promoters, managers or other officials, of any equity shares or other securities held, and of any other person who is a holder of record or is the beneficiary of five percent (5%) or more of any class of the company's equity securities. Present this information in the tabular form set forth below:

Name	Type of Security	Number of Units Held	Aggregate Cost	Cost per Share

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- (b) Describe in detail any consideration other than cash used as payment for the above securities, stating net cost of the assets to the transferor, the value given it at the time of the transfer, and the basis therefor.

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- (c) As to any assets to be acquired from persons listed in (a) above, state the net cost in the hands of the holders on date of transfer, and give the cost thereof to the company.
- (d) State the percent of outstanding securities of the issuer which will be held by directors, officers and promoters, as a group, and the percentage of such securities which will be held by the public, if all the securities to be offered under this registration statement are sold, and the respective amounts of cash (including cash expended for property transferred to the issuer) paid therefor by such group and by the public.

ITEM 4. DISTRIBUTION PLAN

If the securities being registered are to be offered through underwriters, give the name and addresses of the underwriters, their relationship, if any, to the issuer and state briefly the nature of the underwriter's obligation to take the securities.

Instructions:

1. Specify the nature of the underwriter's obligation. Specify whether it is a "firm commitment" under which the underwriters must take and pay for all of the securities if any are taken, or whether it is an agency or "best effort" arrangement under which the underwriters are required to take and pay for only such as they may sell to the public.
2. Outline briefly the plan of distribution of any securities being registered which are to be offered in a manner other than through an underwriter.

ITEM 5. SALES OTHER THAN FOR CASH

If any of the securities being registered are to be offered otherwise than for cash, state briefly the general purpose of the distribution, the basis upon which the securities are to be offered, the amount of compensation and other expenses of distribution, and by whom they are to be borne.

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ITEM 6. CAPITALIZATION AND LONG TERM DEBT

Furnish the information called for by the following table, substantially in the tabular form indicated, as to each class of securities of the issuer and each class of securities, other than those owned by the issuer or its totally controlled subsidiaries, of all subsidiaries of the issuer.

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Amount authorized or to be authorized	Amount outstanding as of a specified date within 90 days	Amount to be outstanding if all securities registered are sold

Instructions:

1. Securities held by or for the account of the issuer thereof are not to be included in the amount outstanding but the amount so held shall be stated in a note to the table.

2. If any of such securities were issued within the last two years or will be issued for a consideration other than cash, disclose in appropriate footnotes to the table the amount and kind of such consideration.

ITEM 7. FINANCIAL STATEMENTS

- (a) Furnish a balance sheet of the issuer as of a date within four (4) months prior to the filing of the registration statement.
- (b) Furnish in a comparative columnar form, a profit and loss statement and analysis of surplus for each of the last three (3) fiscal years of the Issuer (or for the life of the issuer and its immediate predecessors, if less), preceding the date of the balance sheet furnished and for any period subsequent to the latest of such fiscal years and the date of the balance sheet. These balance sheets shall be certified by an independent certified public accountant.
- (c) If the prospectus is filed as part of a registration statement for registration of securities by notification, in lieu of the information required in (b) above, furnish in a comparative columnar form a summary of earnings for each of the two fiscal years preceding the date of the balance sheet, and for any period between the close of the last fiscal year and the date of the balance sheet, or for the period of the issuer's and any predecessor's existence, if less than two (2) years. Such summary shall cover a representative period and, subject to appropriate deviation to correspond to significant characteristics of the issuer, the following items shall be included: net sales or operating revenues, cost of goods sold or operating expenses (or gross profits); interest charges; income taxes; net income and special items. The summary shall reflect the retroactive adjustment of any material items affecting the comparability of the results. Appropriate footnotes to the summary, including references to other parts of the prospectus, shall be furnished whenever necessary to reflect information or explanations of material significance to investors in appraising the results shown. If common stock is being registered, the summary shall be prepared to present earnings applicable to common stock. Earnings per share and dividends

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declared for each year of the summary shall also be included, when appropriate.

- (d) If any part of the proceeds of the offering is to be applied to the purchase of any business furnish, with respect to such business, the financial statements required in Item 7.

ITEM 8. ORGANIZATION OF THE ISSUER

With respect to the issuer and any subsidiary of the issuer, state the year it was organized, its form of organization (such as "A corporation", "An unincorporated association" or other appropriate statement), the name of the State or other jurisdiction under the laws of which it was organized and the address of its principal executive offices.

ITEM 9. SELLING SECURITY HOLDERS

With respect to each person (herein designated as the "selling security holder" or the "SSH") on whose behalf any part of the offer is to be made in a non-issuer distribution, provide the following information: name and address; the amount of securities of the issuer held by the SSH as of the date of the filing of the registration statement; the nature of any position, post or any other relationship which the SSH may have had, during the last three years, with the issuer or person registering the security or with any of its predecessors or affiliates; the number and type of securities held by the SSH before the offer; the amount and type of securities offered on behalf of the SSH, and the amount (and, if such amount is one percent (1%) or more, the percent) of the types of securities which the SSH will hold after completion of the sale of the securities to be offered.

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ITEM 10. DESCRIPTION OF BUSINESS.

- (a) Briefly describe the business carried out and intended to be carried out by the issuer and its subsidiaries and affiliates and the general development of such business during the past five (5) years. Include the businesses in which the Issuer and its subsidiaries or affiliates intend to engage in.

Instructions:

1. The description shall not relate to the powers and objectives specified in the charter, but to the actual business done and intended to be done.

2. In describing development, information shall be given as to matters such as the following: The nature and results of any bankruptcy, receivership or similar proceedings with respect to the issuer or any of its subsidiaries or affiliates; the nature and result of any other materially important reorganization, readjustments or successions of the issuer or any of its subsidiaries or affiliates; the acquisition of any material amount of assets other than in the ordinary course of business; any materially important changes in the type of products produced or services rendered by the issuer and its subsidiaries or affiliates; and any materially important changes in the mode of conducting the business, such as fundamental changes in the methods of distribution.

(b) Indicate briefly, to the extent material, the general competitive conditions in the industry in which the issuer and its subsidiaries or affiliates are engaged or intend to engage, and the position of the enterprise in the industry. If several products or services are involved, separate consideration should be given to the principal products or services or classes of products or services.

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ITEM 11. DESCRIPTION OF THE PROPERTY

State briefly the location and general character of the principal plants, mines and other materially important physical properties of the issuer and its subsidiaries or affiliates. If any of the properties is held subject to conditions, or is held subject to any major encumbrance, so state and briefly describe how held.

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Instructions:

1. The description should be limited to information essential to an investor's appraisal of the securities being registered. In the case of a manufacturing enterprise, for example, the answer should be limited to such over-all statements as will reasonably inform investors as to the suitability, adequacy and productive capacity of the facilities used in the enterprise. In the cases of an extractive enterprise, appropriate information should be given as to production and reserves. Detailed descriptions of the physical characteristics of individual properties or legal registration

description by meters and bounds are not required and should not be given.

ITEM 12. ORGANIZATION WITHIN THREE YEARS

If the issuer was organized within the past three years in a manner other than as the successor to one or more of predecessors, furnish the following information:

- (a) State the names, addresses and principal occupations for the past five (5) years of the promoters; state the nature and amount of anything of value (including money, property, contracts, options or rights of any kind), received or to be received by each promoter directly or indirectly from the issuer; and the nature and amount of any assets, services or other consideration therefor received or to be received by the issuer.
- (b) As to any assets acquired or to be acquired by the issuer from a promoter, state the amount at which acquired or to be acquired, and the principle followed or to be followed in determining the amount. Identify the persons making the determination and state their relationship, if any, with the issuer or any promoter. If the assets were acquired by the promoter within two (2) years prior to their transfer to the issuer, state the cost thereof to the promoter.
- (c) Describe any other material interest of a promoter in any material transaction with the issuer or any of its subsidiaries or affiliates effected or proposed to be effected.

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ITEM 13. LEGAL PROCEEDINGS PENDING

Briefly describe any material legal proceedings pending, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries or affiliates is a party or in which any of their properties is the subject. Include the name of the court and section where the proceedings are pending, the date instituted and the principal parties thereto. Include similar information as to any proceedings known to be contemplated by governmental authorities against the issuer or any of its subsidiaries or affiliates.

Instructions:

1. If the business ordinarily results in actions for negligence or other claims, no such action or claim need be described

unless it departs from the normal kind of such actions as long as the potential contingencies presented by such actions are not significant.

2. Generally, no information need be given with respect to any proceeding which involves primarily a claim for damages if the amount involved, exclusive of interest and costs, does not exceed fifteen percent (15%) of the current assets of the issuer and its subsidiaries, on a consolidated basis. However, if any proceeding presents to a large degree the same issues as other proceedings pending or known to be contemplated, the amount involved in such other proceedings shall be included in computing such percentage.
3. Notwithstanding Instructions 1 and 2, any bankruptcy, receivership, or similar proceeding with respect to the issuer or any of its subsidiaries or affiliates, shall be described. Any proceeding in which any of the following persons has an interest adverse to the issuer or its subsidiaries or affiliates shall also be described: any director, officer or affiliate of the issuer, any security holder named in answer to Item 19 or any person having a material relationship with any such director, officer or security holder.

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ITEM 14. DESCRIPTION OF SECURITIES BEING REGISTERED

- (a) If capital stock or equity shares are being registered, state the title of the class and outline briefly the following: Dividend rights or preferences; voting rights; liquidation rights; preemptive rights; conversion rights; redemption provisions, sinking fund provisions and liability to further assessment.
- (b) State if any new class of securities is to be created by this offer, and describe any limitation or qualification of the rights of the securities being offered by the rights of any other class of securities.
- (c) Describe any long-term debt being registered, stating the title of the issue and outline such of the following provisions as are relevant: (1) interest, maturity, conversion, redemption, amortization, sinking fund or retirement; (2) any restrictions on

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the declaration of dividends or maintenance of any ratio of assets;
(3) any restrictions on the issuance of any additional securities;
and (4) name of trustee, its material relationships with issuer or
affiliates, the percentage of class of securities required for
trustee to take action, and what indemnification may be required by
the trustee before proceeding to enforce liens.

- (d) If securities other than capital stock or debt securities are being
registered, outline briefly the rights evidenced thereby.

Instructions:

1. Describe also any other material provisions, presenting all of the
above in language that is non-technical and easily understandable.

ITEM 15. UNDERTAKING TO REPORT ANNUALLY TO STOCKHOLDERS

A statement shall be made to the effects that: "The fiscal year of the
company ends on . A financial report certified by an
independent certified public accountant will be sent to all stockholders
each year after the close of the fiscal year. The first report will be
sent to the stockholders before , and annually thereafter. This
report will include a balance sheet and a profit and loss statement for
the preceding fiscal year."

Instructions:

1. This requirements is applicable where securities are being
registered for offering on behalf of the issuer.

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ITEM 16. DIRECTORS AND OFFICERS

List the names and addresses of all directors and officers of the issuer
and all persons chosen to become directors and officers. Indicate all
positions and offices with the issuer held by each person named, and the
principal occupations during the past five (5) years of each officer and
each person chosen to become an officer. State the amount and type of
securities of the issuer held by each person named as of a specified date
within thirty (30) days of the filing of the registration statement and
the amount of securities covered by the registration statement to which
he has indicated his intention to subscribe.

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Instructions:

1. If any person chosen to become a director or officer has not
consented to act as such, so state.

ITEM 17. COMPENSATION OF DIRECTORS AND OFFICERS

Disclose, in substantially the tabular form indicated below, all direct compensation paid by the issuer and its subsidiaries during the issuer's last fiscal year, and an estimate of the amount to be paid in the issuer's current fiscal year, to the following persons for services in all capacities:

1. Each director of the issuer whose direct or indirect aggregate remuneration exceeded twenty thousand dollars (\$20,000) and each of the three highest paid officers of the issuer, naming each such person; and,
2. All directors and officers of the issuer as a group, without naming them.

Names of Individuals Or Identity Of the Group.	Capacities In Which Remuneration Was Received.	Aggregate Remuneration.	Estimated Remuneration for Current Fiscal Year.

Instructions:

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This item applies to any person who was a director or officer of the issuer at any time during the fiscal year. However, remuneration is not to be included for any portion of the period during which any such person was not an officer or director of the issuer.

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To the extent that such remuneration is to be computed on the basis of a percentage of profits, state such percentage without estimating the amount of such profits to be paid.

3. State separately the total amount set aside or accrued during the periods pursuant to all pension, retirement, or other deferred compensation plans, as well as any other form of benefit or compensation for the benefit of directors or officers.

ITEM 18. PRINCIPAL HOLDERS OF EQUITY SECURITIES

Provide the following information, in substantially the tabular form indicated below, as to each person, or group of persons under common control, who owns of record, or beneficially, if known, five percent (5%) or more, of the outstanding shares of any class of equity security of the

issuer as of a specified date within thirty (30) days prior to the date of filing.

Name	Title of Class	Type of Ownership	Amount Owned	Percent Of Class

Instructions:

1. Indicate by footnote the amount of the securities covered by the registration statement to which any person named in the table has indicated his intention to subscribe.

ITEM 19. INTEREST OF MANAGEMENT AND OTHERS IN CERTAIN TRANSACTIONS

(a) Describe briefly and where practicable state the approximate amount of any material interest, direct or indirect, of any one of the persons specified below, in any material transaction during the last three (3) years, or any material proposed transaction, to which the issuer or any of its subsidiaries or affiliates was or is to be party:

1. Any director or officer of the issuer.
2. Any security holder named in answer to Item 18.
3. Any person on whose behalf any part of the offer is to be made in a non-issuer distribution.
4. Any person (other than the issuer or its subsidiaries) with whom any of the foregoing persons had a material relationship;

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State the dates of, the parties to, and general effect of every management or other material or significant contract made or to be made in any manner other than in the ordinary course of business if it is to be performed in whole or in part at or after the date of the filing of the registration statement, or which was made within the past two (2) years.

ITEM 20. OPTIONS TO PURCHASE SECURITIES

Furnish the following information as to options to purchase securities from the issuer or any of its subsidiaries, which are outstanding as of a specified date within thirty (30) days prior to the date of filing, or which are to be created in connection with the offer.

- (a) Describe the options, stating the material or significant provisions including the consideration received or to be received by the grantor thereof and the market value of the securities called for on the granting date.
- (b) State (i) the title and amount of the securities called for by such options; (ii) the purchase prices of the securities called for and the expiration dates of such options; and (iii) the market value of the securities called for by such options as of the latest practicable date.
- (c) State the amount of any such options held or to be held by each of the following persons:
 - (1) Any director or officer of the issuer.
 - (2) Any security holder named in answer to Item 18.
 - (3) Any promoter named in answer to Item 12.
 - (4) Any person on whose behalf any part of the offer is to be made in a non-issuer distribution.
 - (5) Any underwriter or recipient of a finder's fee.
 - (6) Any person who holds or will hold five percent (5%) or more in the aggregate of any such options.

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Instructions:

- 1. The term "options" as used in this item includes all options, warrants and rights other than those issued to the security holders as such on a pro-rata basis.

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ITEM 21. LEGAL MATTERS AND STATEMENTS MADE ON THE BASIS OF NAMED EXPERTS

- (a) State the name and address of counsel passing upon the legality of the securities being offered.
- (b) State the name and address of the independent certified public accountant who has certified the financial statements of the issuer included in the registration statement.
- (c) If an engineer, appraiser or other expert whose profession gives authority to statements made by him is named in the prospectus as having prepared a report which is used in connection with the registration statement, the name and address of such person shall

be stated and the statements in the prospectus which are made in reliance upon his opinion as an expert shall be identified clearly.

END OF SCHEDULE A



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