

MAR 16 1989
Sen. Ways + Means

SENATE FILE 463
BY COMMITTEE ON COMMERCE

(SUCCESSOR TO SSB 252)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to securities and investments and properly
2 related matters, by offering a venture capital tax credit,
3 altering allowed exemptions from registration, creating a new
4 class of registration by filing, eliminating certain filing
5 requirements, imposing minimum share prices as a condition for
6 eligibility for certain exemptions and procedures, eliminating
7 the broker-dealer bond requirement for broker-dealers who are
8 members of the securities investors protection corporation,
9 granting the administrator authority to prohibit certain blind
10 pools and direct participation offering, incorporating
11 additional legislative intent language to guide interpretation
12 of the Blue Sky Law, expanding the permitted investments of
13 Iowa insurers to include certain venture capital and small
14 business investments, among other provisions, and mandating a
15 study be prepared by the securities bureau concerning investor
16 protection and the impact of this Act, and repealing limits on
17 securities registered by qualification.

18 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SF 463

1 Section 1. NEW SECTION. 422.11B VENTURE CAPITAL CREDIT.

2 1. The taxes imposed under this division, less credits
3 allowed under sections 422.10, 422.11, 422.11A, and 422.12,
4 shall be reduced by a state tax credit, with authorization for
5 carryforward, equal to ten percent of the taxpayer's
6 investment in new stock issues by qualified businesses and
7 seed or venture capital funds.

8 2. To be a qualified seed or venture capital fund all of
9 the following conditions must be met:

10 a. The investment must be in shares or other equity
11 interests.

12 b. The fund's principal place of business must be in Iowa.

13 c. The fund must represent that not less than fifty
14 percent of the moneys received from the sale of shares or
15 equity interests will be used to make seed or venture capital
16 investments in businesses in Iowa.

17 3. To be a qualified business all of the following
18 conditions must be met:

19 a. The corporation must have its principal place of
20 business in Iowa.

21 b. The corporation must generally operate a value-added
22 business which may include, but is not limited to,
23 manufacturing or transformation of goods for sale or rent,
24 construction, transportation, tourism or recreation, or mining
25 or mineral development.

26 c. The shares must be purchased for money consideration
27 and carry full voting rights.

28 d. The shares must be sold in an offering registered under
29 chapter 502, or sold pursuant to the uniform limited offering
30 exemption in rule 191-50.16, Iowa administrative code, or as
31 authorized or established by rule of the administrator of
32 chapter 502.

33 4. In order for the amount of the investment to remain
34 eligible for the credit, the taxpayer must hold shares of the
35 same value for two complete calendar years following the year

1 of purchase. Shares originally purchased may be sold and
2 replaced with other eligible shares.

3 Sec. 2. Section 502.202, subsection 11, Code 1989, is
4 amended to read as follows:

5 11. A security issued in connection with an employee stock
6 purchase, option, savings, pension, profit sharing or similar
7 benefit plan~~7-provided7-in-the-case-of-plans-which-are-not~~
8 ~~qualified-under-section-401-of-the-Internal-Revenue-Code-and~~
9 ~~which-provide-for-contribution-by-employees7-the-administrator~~
10 ~~is-notified-in-writing-fifteen-days-before-the-inception-of~~
11 ~~the-plan-of-the-terms-of-the-plan.~~

12 Sec. 3. Section 502.203, subsection 11, Code 1989, is
13 amended by striking the subsection and inserting in lieu
14 thereof the following:

15 11. A transaction pursuant to an offer to existing
16 security holders of the issuer, including persons who at the
17 time of the transaction are holders of convertible securities,
18 nontransferable warrants or transferable warrants exercisable
19 within not more than ninety days of their issuance, if either
20 of the following conditions apply:

21 a. No commission or other remuneration, other than a
22 standby commission, is paid or given directly or indirectly
23 for soliciting a security holder in the state.

24 b. The issuer first files a notice specifying the terms of
25 the offer and the administrator does not by order disallow the
26 exemption within the next ten days.

27 Sec. 4. Section 502.203, subsection 13, paragraphs a, b,
28 c, and d, Code 1989, are amended by striking the paragraphs
29 and inserting in lieu thereof the following:

30 a. The securities to be distributed are registered under
31 the Securities Act of 1933 before the consummation of the
32 transaction; or

33 b. The securities to be distributed are not required to be
34 registered under the Securities Act of 1933, written notice of
35 the transaction, a filing fee of fifty dollars, and a copy of

1 the materials, if any, by which approval of the transaction
2 will be solicited is given to the administrator at least ten
3 days before the consummation of the transaction, and the
4 administrator does not disallow, by order, the exemption
5 within the next ten days.

6 Sec. 5. Section 502.203, Code 1989, is amended by adding
7 the following new subsection:

8 NEW SUBSECTION. 17. The offer or sale of securities by a
9 small business investment company under the federal Small
10 Business Investment Act of 1958 if all of the following are
11 met:

12 a. The securities are offered or sold in compliance with
13 rules 230.601-610a of regulation E of the federal Securities
14 Exchange Act of 1933.

15 b. The issuer has filed with the administrator the
16 offering document to be used in connection with the offer and
17 sale of the securities not later than the first use thereof in
18 this state, a copy of the notification on Form 1-E required by
19 rule 230.604 of regulation E, to be filed with the securities
20 and exchange commission, and a fee of one hundred dollars.

21 Sec. 6. NEW SECTION. 502.205A REGISTRATION BY FILING,
22 FOR IOWA ISSUERS.

23 1. A security meeting the conditions set forth in this
24 section may be registered by filing as provided in this
25 section.

26 2. In order to register under this section, the issuer
27 must meet both of the following conditions:

28 a. Both before and upon completion of the offering, the
29 issuer must have its principal place of business in this
30 state.

31 b. Both before and upon completion of the offering, at
32 least fifty percent of the issuer's full-time employees must
33 be located in this state.

34 3. Only equity securities may be registered under this
35 section.

1 4. In order to register under this section, the following
2 conditions must be satisfied:

3 a. The aggregate consideration for all equity securities
4 sold by the issuer in any period of twelve consecutive months
5 in the offering being registered shall not exceed one million
6 dollars or, if rule 504 promulgated under the Securities Act
7 of 1933 is amended after the effective date of this section,
8 the administrator shall by rule increase the limit under this
9 paragraph to conform to that increased amount.

10 b. At least eighty percent of the net proceeds from the
11 offering must be used in connection with the operations of the
12 issuer in this state.

13 c. A commission or other remuneration shall not be paid or
14 given, directly or indirectly, for the sale of the securities,
15 except payments to broker-dealers and agents registered under
16 this chapter or except payments as permitted by the
17 administrator by rule or by order issued upon written
18 application showing good cause for allowance of commission or
19 other remuneration.

20 d. The issuer or a broker-dealer offering or selling the
21 securities is not or would not be disqualified under section
22 (2)(iii) of rule 505 promulgated under the Securities Act of
23 1933.

24 e. An offering document meeting the disclosure
25 requirements of rule 502(b)(2) promulgated under the
26 Securities Act of 1933 shall be delivered to each purchaser in
27 the state prior to the sale of the securities, unless the
28 administrator by rule or order provides for disclosure
29 different from that rule.

30 f. The issuer shall file with the administrator an
31 application for registration and the offering document to be
32 used in connection with the offer and sale of the securities.

33 g. The issuer shall pay to the administrator a fee of
34 fifty dollars and shall not be required to pay the filing fee
35 set forth in section 502.208, subsection 2.

1 5. Unless the administrator issues a stop order denying
2 the effectiveness of the registration, as provided in section
3 502.209, the registration statement shall become effective on
4 the third business day after it has been filed with the
5 administrator.

6 6. Notwithstanding any other provision of this chapter,
7 the administrator shall not deny effectiveness to or suspend
8 or revoke the effectiveness of a registration under this
9 section on the basis of section 502.209, subsection 1,
10 paragraph "e", "f", or "h", and the administrator shall not
11 impose the conditions specified in section 502.208, subsection
12 7. Section 502.208, subsection 9, paragraph "b", subparagraph
13 (2), and section 502.208, subsection 12, are not applicable to
14 a registration under this section.

15 7. In connection with an offering registered under this
16 section, a person may be registered as an agent of the issuer
17 under section 502.301 by the filing with the administrator of
18 an application by the issuer for the registration of the
19 person as an agent of the issuer and the paying of a fee of
20 ten dollars. Notwithstanding any other provision of this
21 chapter, the registration of the agent shall be effective
22 until withdrawn by the issuer or until the securities
23 registered pursuant to the registration statement have all
24 been sold, whichever first occurs. The registration of an
25 agent shall become effective when ordered by the administrator
26 or on the third business day after the agent's application has
27 been filed with the administrator, whichever occurs first, and
28 the administrator shall not impose any further conditions on
29 the registration of the agent. However, the administrator
30 continues to have the right to deny, revoke, suspend, or
31 withdraw the registration of the agent as provided in section
32 502.304. Notwithstanding section 502.302, subsection 5, for
33 the purposes of registration of agents under this section, the
34 issuer and the agent are not required to post bond. An agent
35 registered solely pursuant to this section is entitled to sell

1 only the securities registered under this section.

2 Sec. 7. Section 502.208, Code 1989, is amended by adding
3 the following new subsections:

4 NEW SUBSECTION. 14. The administrator may by rule or
5 order prohibit an offering which is a blind pool, unless the
6 administrator determines that either, or both, of the
7 following conditions are met:

8 a. The blind pool is a community development, seed, or
9 venture capital fund for which the administrator authorizes a
10 waiver.

11 b. The administrator, by rule or order, finds that it is
12 not necessary for the protection of investors that an offering
13 or certain category of offerings should be prohibited.

14 NEW SUBSECTION. 15. The administrator may by rule or
15 order prohibit an offering which is a direct participation.

16 Sec. 8. Section 502.209, Code 1989, is amended by adding
17 the following new subsection:

18 NEW SUBSECTION. 6. The administrator may apply paragraph
19 "a", "b", "c", "d", or "i" of subsection 1, and shall not
20 apply paragraph "e", "f", "g", or "h", and shall not apply
21 subsections 7 or 8 of section 502.208 to a registration under
22 section 502.206 if all of the following conditions are
23 present:

24 a. In the case of an equity security, the price to the
25 purchaser per share is two dollars or more.

26 b. At least one of the underwriters participating in the
27 offering, and each broker-dealer who will offer the securities
28 in this state, are members of, or are subject to the rules of
29 fair practice of, a national association of securities dealers
30 with respect to the offering, and none of the managing
31 underwriters is affiliated with the issuer, or the sponsor or
32 controlling person of the issuer, by means of direct or
33 indirect common control.

34 c. The issuer or any controlling person has not violated a
35 provision of this chapter or a rule under this chapter or an

1 order of the administrator of which the issuer has notice.

2 Sec. 9. Section 502.302, subsection 5, unnumbered para-
3 graph 1, Code 1989, is amended to read as follows:

4 Every broker-dealer and every issuer who employs agents in
5 connection with any security or transaction not exempted
6 either by section 502.202 or section 502.203, shall file and
7 maintain with the administrator a bond conditioned that the
8 broker-dealer or issuer shall properly account for any moneys
9 or securities received from or belonging to another and shall
10 pay, satisfy, and discharge any judgment or decree that may be
11 rendered against such the broker-dealer or issuer in a court
12 of competent jurisdiction in a suit or action brought by a
13 purchaser or seller of securities against such the broker-
14 dealer or issuer in which it ~~shall be~~ is found or adjudged
15 that such securities were sold or purchased by the broker-
16 dealer or issuer in violation of this chapter. Such The bond
17 may be drawn to cover the original license and any renewals
18 thereof of the license, and may contain a provision
19 authorizing the surety therein to cancel upon thirty days'
20 notice to the principal and the administrator. However, a
21 broker-dealer who is a member of the securities investor
22 protection corporation is not required to furnish the bond.

23 Sec. 10. Section 502.611, Code 1989, is amended by adding
24 the following new unnumbered paragraph:

25 NEW UNNUMBERED PARAGRAPH. This chapter shall be construed
26 and implemented to effectuate its general purposes to protect
27 investors and consistent with that purpose, to encourage
28 capital formation, job formation, and free and competitive
29 securities markets and to minimize regulatory burdens on
30 issuers and persons subject to this chapter, especially small
31 businesses.

32 Sec. 11. NEW SECTION. 502.613 DATA COLLECTION.

33 The bureau shall provide for the period July 1, 1989, to
34 March 1, 1991, a uniform collection and reporting system for
35 data relating to consumer concerns and complaints and any

1 fraudulent or abusive securities practices. The data
2 collected shall be delivered to the members of the house
3 standing committee on small business and commerce and the
4 senate standing committee on commerce by March 1, 1991, along
5 with the administrator's recommendations, resulting from the
6 data, relating to legislative action regarding the minimum
7 price of equity securities exempted pursuant to section
8 502.209.

9 Sec. 12. Section 511.8, Code 1989, is amended by adding
10 the following new subsection:

11 NEW SUBSECTION. 22. Shares or equity interests in either,
12 or both, of the following:

13 a. Venture capital enterprises that have their principal
14 offices in this state and represent that one-half of the funds
15 received from the sale of such shares or equity interests
16 shall be invested in Iowa businesses.

17 b. Small businesses that have their principal offices in
18 this state and have either more than one-half of their assets
19 within this state or more than one-half of their employees
20 employed within this state.

21 A company shall not invest more than five percent of its
22 legal reserve under this subsection. "Small businesses", as
23 used in this subsection, means those businesses which meet the
24 small business administration definition of small business.
25 "Equity interests", as used in this subsection, means limited
26 partnership interests and other equity interests in which
27 liability is limited to the amount of the investment, but does
28 not mean general partnerships or other interests involving
29 general liability.

30 Sec. 13. Section 515.35, Code 1989, is amended by adding
31 the following new subsection:

32 NEW SUBSECTION. 5. Shares or equity interests in venture
33 capital enterprises or small businesses having their principal
34 offices within this state and having either more than one-half
35 of their assets within this state or more than one-half of

1 their employees employed in this state. A company shall not
2 invest more than five percent of its capital and surplus under
3 this subsection. "Small businesses", as used in this subsec-
4 tion, means those businesses which meet the small business
5 administration definition of small business. "Equity in-
6 terests", as used in this subsection, means limited part-
7 nership interests and other equity interests in which lia-
8 bility is limited to the amount of the investment, but does
9 not mean general partnership interests or other interests
10 involving general liability.

11 Sec. 14. Section 502.210, Code 1989, is repealed.

12 EXPLANATION

13 This bill implements many of the majority report's
14 recommendations of the SCOPE (Securities and Capital
15 Opportunities Promotion and Expansion) Task Force, including
16 provisions for registration by filing for certain issues
17 subject to federal filing and creation of a venture capital
18 tax credit, among others.

19 Section 1 authorizes a ten percent venture capital tax
20 credit for a taxpayer's investment in certain qualified
21 businesses and seed or venture capital funds.

22 Section 2 eliminates the filing requirement in order to
23 qualify for the employee benefit plan exemption to reduce
24 paperwork.

25 Section 3 adopts uniform language recommended by the
26 national association of securities commissioners to expand the
27 exemption for sales to existing securities holders.

28 Section 4 eliminates a filing requirement to qualify for
29 the merger exemption.

30 Section 5 offers a new exemption from registration
31 requirements for the offer or sale of securities by a small
32 business investment company under the federal Small Business
33 Investment Act of 1958.

34 Section 6 offers a new procedure for registration by filing
35 for certain Iowa issuers. Previously, registration could only

1 be performed by qualification or coordination for all
2 nonexempt issuers.

3 Section 7 authorizes the administrator to prohibit by rule
4 or order an offering which is a blind pool, unless the blind
5 pool is a community development, seed, or venture capital
6 fund, or prohibition is not necessary for the protection of
7 investors. Similar authorization is granted to prohibit
8 direct participation offerings.

9 Section 8 applies minimum share prices and other
10 qualifications for certain classes of securities to be
11 eligible for certain exemptions in order to avoid abuses
12 associated with so-called "penny stock".

13 Section 9 provides that a broker-dealer who is a member of
14 the securities investor protection corporation is not required
15 to post a bond in addition to the security offered by the
16 securities investor protection corporation for investors who
17 conduct business with its members.

18 Section 10 adds intent language to indicate that protection
19 of investors is the primary purpose of the Blue Sky Law, but
20 that when possible the Blue Sky Law should be construed to
21 encourage capital formation, job formation, and free and
22 competitive securities markets and to minimize regulatory
23 burdens on issuers and persons subject to the Blue Sky Law,
24 especially small business.

25 Section 11 requires the securities bureau of the division
26 of insurance of the department of commerce to collect data
27 relating to consumer concerns and complaints and any
28 fraudulent or abusive securities practices. A report is to be
29 prepared by the administrator by March 1, 1991, and submitted
30 to the general assembly. The report is also to address the
31 effectiveness of the minimum share price provisions of section
32 8 of the bill.

33 Sections 12 and 13 permit Iowa insurance companies to
34 invest in certain venture capital enterprises and small
35 businesses, without violation of prudent investment standards.

1 Section 14 repeals the limits currently imposed on the size
2 of issues eligible for registration by qualification.

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SENATE FILE 463
FISCAL NOTE

A fiscal note for SENATE FILE 463 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 463 provides for the following.

- A. Section 1 authorizes a 10% venture capital tax credit for a taxpayer's investment in certain qualified business and seed or venture capital funds.
- B. Section 2 eliminates the filing requirement in order to qualify for the employee benefit plan exemption to reduce paperwork.
- C. Section 3 adopts uniform language recommended by the National Association of Securities Commissioners to expand the exemption for sales to existing securities holders.
- D. Section 4 offers a new exemption from registration requirements for the offer or sale of securities by a small business investment company under the federal Small Business Investment Act of 1958.
- E. Section 6 offers a new procedure for registration by filing for certain Iowa issuers. Previously, registration could only be performed by qualification or coordination for all nonexempt issuers.
- F. Section 7 authorizes the administrator to prohibit by rule or order an offering which is a blind pool, unless the blind pool is a community development, seed, or venture capital fund, or prohibition is not necessary for the protection of investors. Similar authorization is granted to prohibit direct participation offerings.
- G. Section 8 applies minimum share prices and other qualifications for certain classes of securities to be eligible for certain exemptions in order to avoid abuses associated with so-called "penny-stock".
- H. Section 9 provides that a broker-dealer who is a member of the Securities Investor Protection Corporation is not required to post a bond in addition to the security offered by the Corporation for investors who conduct business with its members.
- I. Section 10 adds intent language to indicate that protection of investors is the primary purpose of the Blue Sky Law, but that when possible the Blue Sky Law should be construed to encourage capital formation, job formation, and free and competitive securities markets and to minimize regulatory burdens on issuers and persons subject to the Blue Sky Law, especially small business.

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- J. Section 11 requires the Securities Bureau of the Division of Insurance of the Department of Commerce to collect data relating to consumer concerns and complaints and any fraudulent or abusive securities practices. A report is to be prepared by the administrator by March 1, 1991, and submitted to the General Assembly. The report is also to address the effectiveness of the minimum share price provisions of Section 8.
- K. Sections 12 and 13 permit Iowa insurance companies to invest in certain venture capital enterprises and small businesses, without violation of prudent investment standards.
- L. Section 14 repeals the limits currently imposed on the size of issues eligible for registration by qualification.

FISCAL EFFECT: The costs for FY 1990 are estimated at \$100,000 or less due to the delays necessary for implementation, the timing of the tax year, and other considerations. The impact for FY 1991 is estimated at \$400,000 to \$500,000.

In future years it is estimated that additional revenues generated by new economic activity should equal or exceed the initial loss of revenue due to tax credits or deferrals. However, the amount of such an increase cannot be estimated at this time.

The Insurance Division of the Department of Commerce estimates that one additional staff person and support will be necessary at a cost of \$43,000.

(Source: Departments of Revenue and Commerce)

(LSB 1762sv, DPW)

FILED MARCH 22, 1989

BY DENNIS PROUTY, FISCAL DIRECTOR

RIFE, CH.
BRONSTAL
KINLOY

SSB 252
Commerce

SENATE FILE 413
BY (PROPOSED GOVERNOR'S BILL)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

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11 additional legislative intent language to guide interpretation
12 of the Blue Sky Law, expanding the permitted investments of
13 Iowa insurers to include certain venture capital and small
14 business investments, among other provisions, and mandating a
15 study be prepared by the securities bureau concerning investor
16 protection and the impact of this Act, and repealing limits on
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18 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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28 d. The shares must be sold in an offering registered under
29 chapter 502, or sold pursuant to the uniform limited offering
30 exemption in rule 510-50.16, Iowa administrative code, or as
31 authorized or established by rule of the administrator of
32 chapter 502.

33 4. In order for the amount of the investment to remain
34 eligible for the credit, the taxpayer must hold shares of the
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7 benefit plan, ~~provided, in the case of plans which are not~~
8 ~~qualified under section 401 of the Internal Revenue Code and~~
9 ~~which provide for contribution by employees, the administrator~~
10 ~~is notified in writing fifteen days before the inception of~~
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17 sale of the securities not later than the first use thereof in
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20 and exchange commission, and a fee of one hundred dollars.

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30 state.

31 b. Both before and upon completion of the offering, at
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33 be located in this state.

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2 conditions must be satisfied:

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5 in the offering being registered shall not exceed one million
6 dollars or, if rule 504 promulgated under the Securities Act
7 of 1933 is amended after the effective date of this section,
8 the administrator shall by rule increase the limit under this
9 paragraph to conform to that increased amount.

10 b. At least eighty percent of the net proceeds from the
11 offering must be used in connection with the operations of the
12 issuer in this state.

13 c. A commission or other remuneration shall not be paid or
14 given, directly or indirectly, for the sale of the securities,
15 except payments to broker-dealers and agents registered under
16 this chapter or except payments as permitted by the
17 administrator by rule or by order issued upon written
18 application showing good cause for allowance of commission or
19 other remuneration.

20 d. The issuer or a broker-dealer offering or selling the
21 securities is not or would not be disqualified under section
22 (2)(iii) of rule 505 promulgated under the Securities Act of
23 1933.

24 e. An offering document meeting the disclosure
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26 Securities Act of 1933 shall be delivered to each purchaser in
27 the state prior to the sale of the securities, unless the
28 administrator by rule or order provides for disclosure
29 different from that rule.

30 f. The issuer shall file with the administrator an
31 application for registration and the offering document to be
32 used in connection with the offer and sale of the securities.

33 g. The issuer shall pay to the administrator a fee of
34 fifty dollars and shall not be required to pay the filing fee
35 set forth in section 502.208, subsection 2.

1 5. Unless the administrator issues a stop order denying
2 the effectiveness of the registration, as provided in section
3 502.209, the registration statement shall become effective on
4 the third business day after it has been filed with the
5 administrator.

6 6. Notwithstanding any other provision of this chapter,
7 the administrator shall not deny effectiveness to or suspend
8 or revoke the effectiveness of a registration under this
9 section on the basis of section 502.209, subsection 1,
10 paragraph "e", "f", or "h", and the administrator shall not
11 impose the conditions specified in section 502.208, subsection
12 7. Section 502.208, subsection 9, paragraph "b", subparagraph
13 (2), and section 502.208, subsection 12, are not applicable to
14 a registration under this section.

15 7. In connection with an offering registered under this
16 section, a person may be registered as an agent of the issuer
17 under section 502.301 by the filing with the administrator of
18 an application by the issuer for the registration of the
19 person as an agent of the issuer and the paying of a fee of
20 ten dollars. Notwithstanding any other provision of this
21 chapter, the registration of the agent shall be effective
22 until withdrawn by the issuer or until the securities
23 registered pursuant to the registration statement have all
24 been sold, whichever first occurs. The registration of an
25 agent shall become effective when ordered by the administrator
26 or on the third business day after the agent's application has
27 been filed with the administrator, whichever occurs first, and
28 the administrator shall not impose any further conditions on
29 the registration of the agent. However, the administrator
30 continues to have the right to deny, revoke, suspend, or
31 withdraw the registration of the agent as provided in section
32 502.304. Notwithstanding section 502.302, subsection 5, for
33 the purposes of registration of agents under this section, the
34 issuer and the agent are not required to post bond. An agent
35 registered solely pursuant to this section is entitled to sell

1 only the securities registered under this section.

2 Sec. 7. Section 502.208, Code 1989, is amended by adding
3 the following new subsections:

4 NEW SUBSECTION. 14. The administrator may by rule or
5 order prohibit an offering which is a blind pool, unless the
6 administrator determines that either, or both, of the
7 following conditions are met:

8 a. The blind pool is a community development, seed, or
9 venture capital fund for which the administrator authorizes a
10 waiver.

11 b. The administrator, by rule or order, finds that it is
12 not necessary for the protection of investors that an offering
13 or certain category of offerings should be prohibited.

14 NEW SUBSECTION. 15. The administrator may by rule or
15 order prohibit an offering which is a direct participation.

16 Sec. 8. Section 502.209, Code 1989, is amended by adding
17 the following new subsection:

18 NEW SUBSECTION. 6. The administrator may apply paragraph
19 "a", "b", "c", "d", or "i" of subsection 1, and shall not
20 apply paragraph "e", "f", "g", or "h", and shall not apply
21 subsections 7 or 8 of section 502.208 to a registration under
22 section 502.206 if all of the following conditions are
23 present:

24 a. In the case of an equity security, the price to the
25 purchaser per share is two dollars or more.

26 b. At least one of the underwriters participating in the
27 offering, and each broker-dealer who will offer the securities
28 in this state, are members of, or are subject to the rules of
29 fair practice of, a national association of securities dealers
30 with respect to the offering, and none of the managing
31 underwriters is affiliated with the issuer, or the sponsor or
32 controlling person of the issuer, by means of direct or
33 indirect common control.

34 c. The issuer or any controlling person has not violated a
35 provision of this chapter or a rule under this chapter or an

1 order of the administrator of which the issuer has notice.

2 Sec. 9. Section 502.302, subsection 5, unnumbered para-
3 graph 1, Code 1989, is amended to read as follows:

4 Every broker-dealer and every issuer who employs agents in
5 connection with any security or transaction not exempted
6 either by section 502.202 or section 502.203, shall file and
7 maintain with the administrator a bond conditioned that the
8 broker-dealer or issuer shall properly account for any moneys
9 or securities received from or belonging to another and shall
10 pay, satisfy, and discharge any judgment or decree that may be
11 rendered against ~~such~~ the broker-dealer or issuer in a court
12 of competent jurisdiction in a suit or action brought by a
13 purchaser or seller of securities against ~~such~~ the broker-
14 dealer or issuer in which it ~~shall-be~~ is found or adjudged
15 that such securities were sold or purchased by the broker-
16 dealer or issuer in violation of this chapter. ~~Such~~ The bond
17 may be drawn to cover the original license and any renewals
18 thereof of the license, and may contain a provision
19 authorizing the surety ~~therein~~ to cancel upon thirty days'
20 notice to the principal and the administrator. However, a
21 broker-dealer who is a member of the securities investor
22 protection corporation is not required to furnish the bond.

23 Sec. 10. Section 502.611, Code 1989, is amended by adding
24 the following new unnumbered paragraph:

25 NEW UNNUMBERED PARAGRAPH. This chapter shall be construed
26 and implemented to effectuate its general purposes to protect
27 investors and consistent with that purpose, to encourage
28 capital formation, job formation, and free and competitive
29 securities markets and to minimize regulatory burdens on
30 issuers and persons subject to this chapter, especially small
31 businesses.

32 Sec. 11. NEW SECTION. 502.613 DATA COLLECTION.

33 The bureau shall provide for the period July 1, 1989, to
34 March 1, 1991, a uniform collection and reporting system for
35 data relating to consumer concerns and complaints and any

1 fraudulent or abusive securities practices. The data
2 collected shall be delivered to the members of the house
3 standing committee on small business and commerce and the
4 senate standing committee on commerce by March 1, 1991, along
5 with the administrator's recommendations, resulting from the
6 data, relating to legislative action regarding the minimum
7 price of equity securities exempted pursuant to section
8 502.209.

9 Sec. 12. Section 511.8, Code 1989, is amended by adding
10 the following new subsection:

11 NEW SUBSECTION. 22. Shares or equity interests in either,
12 or both, of the following:

13 a. Venture capital enterprises that have their principal
14 offices in this state and represent that one-half of the funds
15 received from the sale of such shares or equity interests
16 shall be invested in Iowa businesses.

17 b. Small businesses that have their principal offices in
18 this state and have either more than one-half of their assets
19 within this state or more than one-half of their employees
20 employed within this state.

21 A company shall not invest more than five percent of its
22 legal reserve under this subsection. "Small businesses", as
23 used in this subsection, means those businesses which meet the
24 small business administration definition of small business.
25 "Equity interests", as used in this subsection, means limited
26 partnership interests and other equity interests in which
27 liability is limited to the amount of the investment, but does
28 not mean general partnerships or other interests involving
29 general liability.

30 Sec. 13. Section 515.35, Code 1989, is amended by adding
31 the following new subsection:

32 NEW SUBSECTION. 5. Shares or equity interests in venture
33 capital enterprises or small businesses having their principal
34 offices within this state and having either more than one-half
35 of their assets within this state or more than one-half of

1 their employees employed in this state. A company shall not
2 invest more than five percent of its capital and surplus under
3 this subsection. "Small businesses", as used in this subsec-
4 tion, means those businesses which meet the small business
5 administration definition of small business. "Equity in-
6 terests", as used in this subsection, means limited part-
7 nership interests and other equity interests in which lia-
8 bility is limited to the amount of the investment, but does
9 not mean general partnership interests or other interests
10 involving general liability.

11 Sec. 14. Section 502.210, Code 1989, is repealed.

12 EXPLANATION

13 This bill implements many of the majority report's
14 recommendations of the SCOPE (Securities and Capital
15 Opportunities Promotion and Expansion) Task Force, including
16 provisions for registration by filing for certain issues
17 subject to federal filing and creation of a venture capital
18 tax credit, among others.

19 Section 1 authorizes a ten percent venture capital tax
20 credit for a taxpayer's investment in certain qualified
21 businesses and seed or venture capital funds.

22 Section 2 eliminates the filing requirement in order to
23 qualify for the employee benefit plan exemption to reduce
24 paperwork.

25 Section 3 adopts uniform language recommended by the
26 national association of securities commissioners to expand the
27 exemption for sales to existing securities holders.

28 Section 4 eliminates a filing requirement to qualify for
29 the merger exemption.

30 Section 5 offers a new exemption from registration
31 requirements for the offer or sale of securities by a small
32 business investment company under the federal Small Business
33 Investment Act of 1958.

34 Section 6 offers a new procedure for registration by filing
35 for certain Iowa issuers. Previously, registration could only

1 be performed by qualification or coordination for all
2 nonexempt issuers.

3 Section 7 authorizes the administrator to prohibit by rule
4 or order an offering which is a blind pool, unless the blind
5 pool is a community development, seed, or venture capital
6 fund, or prohibition is not necessary for the protection of
7 investors. Similar authorization is granted to prohibit
8 direct participation offerings.

9 Section 8 applies minimum share prices and other
10 qualifications for certain classes of securities to be
11 eligible for certain exemptions in order to avoid abuses
12 associated with so-called "penny stock".

13 Section 9 provides that a broker-dealer who is a member of
14 the securities investor protection corporation is not required
15 to post a bond in addition to the security offered by the
16 securities investor protection corporation for investors who
17 conduct business with its members.

18 Section 10 adds intent language to indicate that protection
19 of investors is the primary purpose of the Blue Sky Law, but
20 that when possible the Blue Sky Law should be construed to
21 encourage capital formation, job formation, and free and
22 competitive securities markets and to minimize regulatory
23 burdens on issuers and persons subject to the Blue Sky Law,
24 especially small business.

25 Section 11 requires the securities bureau of the division
26 of insurance of the department of commerce to collect data
27 relating to consumer concerns and complaints and any
28 fraudulent or abusive securities practices. A report is to be
29 prepared by the administrator by March 1, 1991, and submitted
30 to the general assembly. The report is also to address the
31 effectiveness of the minimum share price provisions of section
32 8 of the bill.

33 Sections 12 and 13 permit Iowa insurance companies to
34 invest in certain venture capital enterprises and small
35 businesses, without violation of prudent investment standards.

1 Section 14 repeals the limits currently imposed on the size
2 of issues eligible for registration by qualification.

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