

This Document can be made available
in alternative formats upon request

State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-NINTH SESSION

H. F. No. 328

01/26/2015 Authored by Loon; Atkins; Hoppe; Anderson, S.; Applebaum and others
The bill was read for the first time and referred to the Committee on Commerce and Regulatory Reform
03/05/2015 Adoption of Report: Amended and re-referred to the Committee on Government Operations and Elections Policy
03/19/2015 Adoption of Report: Re-referred to the Committee on Job Growth and Energy Affordability Policy and Finance
By motion, recalled and re-referred to the Committee on Civil Law and Data Practices
03/23/2015 Adoption of Report: Amended and re-referred to the Committee on Job Growth and Energy Affordability Policy and Finance

1.1 A bill for an act
1.2 relating to securities regulation; providing an exemption from regulation for
1.3 crowdfunding transactions; proposing coding for new law in Minnesota Statutes,
1.4 chapter 80A.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. **[80A.461] MNVEST REGISTRATION EXEMPTION.**

1.7 Subdivision 1. **Definitions.** (a) For purposes of this section, the terms defined in
1.8 paragraphs (b) through (e) have the meanings given them.

1.9 (b) "MNvest issuer" means an entity organized under the laws of Minnesota, other
1.10 than a general partnership, that satisfies the requirements of Code of Federal Regulations,
1.11 title 17, part 230.147, and the following requirements:

1.12 (1) the principal office of the entity is located in Minnesota;

1.13 (2) as of the last day of the most recent semiannual fiscal period of the entity, at least
1.14 80 percent, or other threshold permitted by Code of Federal Regulations, title 17, part
1.15 230.147, of the entity's assets were located in Minnesota;

1.16 (3) except in the case of an entity whose gross revenue during the most recent period
1.17 of 12 full months did not exceed \$5,000, the entity derived at least 80 percent, or other
1.18 threshold permitted by Code of Federal Regulations, title 17, part 230.147, of the entity's
1.19 gross revenues from the operation of a business in Minnesota during (i) the previous fiscal
1.20 year, if the MNvest offering begins during the first six months of the entity's fiscal year; or
1.21 (ii) during the 12 months ending on the last day of the sixth month of the entity's current
1.22 fiscal year, if the MNvest offering begins following the last day;

2.1 (4) the entity does not attempt to limit its liability, or the liability of any other
2.2 person, for fraud or intentional misrepresentation in connection with the offering of its
2.3 securities in a MNvest offering; and

2.4 (5) the entity is not:

2.5 (i) engaged in the business of investing, reinvesting, owning, holding, or trading in
2.6 securities, except that the entity may hold securities of one class in an entity that is not
2.7 itself engaged in the business of investing, reinvesting, owning, holding, or trading in
2.8 securities; or

2.9 (ii) subject to the reporting requirements of the Securities and Exchange Act of 1934,
2.10 section 13 or section 15(d), United States Code, title 15, section 78m and section 78o(d).

2.11 (c) "MNvest offering" means an offer, or an offer and sale, of securities by a MNvest
2.12 issuer that: (1) is conducted exclusively through a MNvest portal and (2) satisfies the
2.13 requirements of this section and other requirements the administrator imposes by rule.

2.14 (d) "MNvest portal" means an Internet Web site that is operated by a portal operator
2.15 for the offer or sale of MNvest offerings under this section or registered securities under
2.16 section 80A.50, paragraph (b), and satisfies the requirements of subdivision 6.

2.17 (e) "Portal operator" means an entity, including an issuer, that:

2.18 (1) is authorized to do business in Minnesota;

2.19 (2) is a broker-dealer registered under this chapter or otherwise registers with the
2.20 administrator as a portal operator in accordance with subdivision 7, paragraph (a), and is
2.21 therefore excluded from broker-dealer registration; and

2.22 (3) satisfies such other conditions as the administrator may determine.

2.23 Subd. 2. **Generally.** The offer, sale, and issuance of securities in a MNvest offering
2.24 is exempt from the requirements of sections 80A.49 to 80A.54, except 80A.50, paragraph
2.25 (a), clause (3), and 80A.71, if the issuer meets the qualifications under this section.

2.26 Subd. 3. **MNvest offering.** (a) A MNvest offering must satisfy the following
2.27 requirements:

2.28 (1) the issuer must be a MNvest issuer on the date that its securities are first offered
2.29 for sale in the offering and continuously through the closing of the offering;

2.30 (2) the offering must meet the requirements of the federal exemption for intrastate
2.31 offerings in section 3(a)(11) of the Securities Act of 1933, United States Code, title 15,
2.32 section 77c (a)(11), and Rule 147 adopted under the Securities Act of 1933, Code of
2.33 Federal Regulations, title 17, part 230.147;

2.34 (3) the sale of securities must be conducted exclusively through a MNvest portal;

2.35 (4) the MNvest issuer shall require the portal operator to provide or make available
2.36 to prospective purchasers through the MNvest portal a copy of the MNvest issuer's balance

3.1 sheet and income statement for the MNvest issuer's most recent fiscal year, if the issuer
3.2 was in existence. For offerings beginning more than 90 days after the issuer's most recent
3.3 fiscal year end, or if the MNvest issuer was not in existence the previous calendar year, the
3.4 MNvest issuer must provide or make available a balance sheet as of a date not more than
3.5 90 days before the commencement of the MNvest offering for the MNvest issuer's most
3.6 recently completed fiscal year, or such shorter portion the MNvest issuer was in existence
3.7 during that period, and the year-to-date period, or inception-to-date period, if shorter,
3.8 corresponding with the more recent balance sheet required by this clause;

3.9 (5) in any 12-month period, the MNvest issuer shall not raise more than the
3.10 aggregate amounts set forth in item (i) or (ii), either in cash or other consideration, in
3.11 connection with one or more MNvest offerings:

3.12 (i) \$5,000,000 if the financial statements described in clause (4) have been (1)
3.13 audited by a certified public accountant firm licensed under chapter 326A using auditing
3.14 standards issued by either the American Institute of Certified Public Accountants or
3.15 the Public Company Oversight Board, or (2) reviewed by a certified public accountant
3.16 firm licensed under chapter 326A using the Statements on Standards for Accounting
3.17 and Review Services issued by the Accounting and Review Services Committee of the
3.18 American Institute of Certified Public Accountants; or

3.19 (ii) \$2,000,000 if the financial statements described in clause (4) have not been
3.20 audited or reviewed as described in item (i);

3.21 (6) the MNvest issuer must use at least 80 percent of the net proceeds of the offering
3.22 in connection with the operation of its business within Minnesota;

3.23 (7) no single purchaser may purchase more than \$10,000 in securities of the MNvest
3.24 issuer under this exemption in connection with a single MNvest offering unless the
3.25 purchaser is an accredited investor;

3.26 (8) all payments for the purchase of securities must be held in escrow until the
3.27 aggregate capital deposited into escrow from all purchasers is equal to or greater than the
3.28 stated minimum offering amount. Purchasers will receive a return of all their subscription
3.29 funds if the minimum offering amount is not raised by the stipulated expiration date
3.30 required in subdivision 4, clause (2). The escrow agent must be a bank, regulated trust
3.31 company, savings bank, savings association, or credit union authorized to do business
3.32 in Minnesota. Prior to the execution of the escrow agreement between the issuer and
3.33 the escrow agent, the escrow agent must conduct searches of the issuer, its executive
3.34 officers, directors, governors, and managers, as provided to the escrow agent by the portal
3.35 operator, against the Specially Designated Nationals list maintained by the Office of
3.36 Foreign Assets Control. The escrow agent is only responsible to act at the direction of the

4.1 party establishing the escrow account and does not have a duty or liability, contractual
4.2 or otherwise, to an investor or other person except as set forth in the applicable escrow
4.3 agreement or other contract;

4.4 (9) the MNvest issuer shall require the portal operator to make available to the
4.5 prospective purchaser through the MNvest portal a disclosure document that meets the
4.6 requirements set forth in subdivision 4;

4.7 (10) before selling securities to a prospective purchaser on a MNvest portal, the
4.8 MNvest issuer shall require the portal operator to obtain from the prospective purchaser
4.9 the certification required under subdivision 5;

4.10 (11) not less than ten days before the beginning of an offering of securities in reliance
4.11 on the exemption under this section, the MNvest issuer shall provide the following to
4.12 the administrator:

4.13 (i) a notice of claim of exemption from registration, specifying that the MNvest
4.14 issuer will be conducting an offering in reliance on the exemption under this section;

4.15 (ii) a copy of the disclosure document to be provided to prospective purchasers in
4.16 connection with the offering, as described in subdivision 4; and

4.17 (iii) a filing fee of \$300; and

4.18 (12) the MNvest issuer and the portal operator may engage in solicitation and
4.19 advertising of the MNvest offering provided that:

4.20 (i) the advertisement contains disclaiming language which clearly states:

4.21 (A) the advertisement is not the offer and is for informational purposes only;

4.22 (B) the offering is being made in reliance on the exemption under this section;

4.23 (C) the offering is directed only to residents of the state;

4.24 (D) all offers and sales are made through a MNvest portal; and

4.25 (E) the Department of Commerce is the securities regulator in Minnesota;

4.26 (ii) along with the disclosures required under item (i), the advertisement may contain
4.27 no more than the following information:

4.28 (A) the name and contact information of the MNvest issuer;

4.29 (B) a brief description of the general type of business of the MNvest issuer;

4.30 (C) the minimum offering amount the MNvest issuer is attempting to raise through
4.31 its offering;

4.32 (D) a description of how the issuer will use the funds raised through the MNvest
4.33 offering;

4.34 (E) the duration that the MNvest offering will remain open;

4.35 (F) the MNvest issuer's logo; and

5.1 (G) a link to the MNvest issuer's Web site and the MNvest portal in which the
5.2 MNvest offering is being made;

5.3 (iii) the advertisement complies with all applicable state and federal laws.

5.4 **Subd. 4. Required disclosures to prospective MNvest offering purchasers.**

5.5 The MNvest issuer shall require the portal operator to make available to the prospective
5.6 purchaser through the MNvest portal a printable or downloadable disclosure document
5.7 containing the following:

5.8 (1) the MNvest issuer's type of entity, the address and telephone number of its
5.9 principal office, its formation history for the previous five years, a summary of the material
5.10 facts of its business plan and its capital structure, and its intended use of the offering
5.11 proceeds, including any amounts to be paid from the proceeds of the MNvest offering, as
5.12 compensation or otherwise, to an owner, executive officer, director, governor, manager,
5.13 member, or other person occupying a similar status or performing similar functions on
5.14 behalf of the MNvest issuer;

5.15 (2) the MNvest offering must stipulate the date on which the offering will expire,
5.16 which must not be longer than 12 months from the date the MNvest offering commenced;

5.17 (3) a copy of the escrow agreement between the escrow agent, the MNvest issuer,
5.18 and, if applicable, the portal operator, as described in subdivision 3, clause (8);

5.19 (4) the financial statements required under subdivision 3, clause (4);

5.20 (5) the identity of all persons owning more than ten percent of any class of equity
5.21 interests in the company;

5.22 (6) the identity of the executive officers, directors, governors, managers, members,
5.23 and other persons occupying a similar status or performing similar functions in the name of
5.24 and on the behalf of the MNvest issuer, including their titles and their relevant experience;

5.25 (7) the terms and conditions of the securities being offered, a description of investor
5.26 exit strategies, and of any outstanding securities of the MNvest issuer; the minimum and
5.27 maximum amount of securities being offered; either the percentage economic ownership
5.28 of the MNvest issuer represented by the offered securities, assuming the minimum and, if
5.29 applicable, maximum number of securities being offered is sold, or the valuation of the
5.30 MNvest issuer implied by the price of the offered securities; the price per share, unit, or
5.31 interest of the securities being offered; any restrictions on transfer of the securities being
5.32 offered; and a disclosure that any future issuance of securities might dilute the value of
5.33 securities being offered;

5.34 (8) the identity of and consideration payable to a person who has been or will be
5.35 retained by the MNvest issuer to assist the MNvest issuer in conducting the offering and
5.36 sale of the securities, including a portal operator, but excluding (i) persons acting primarily

6.1 as accountants or attorneys, and (ii) employees whose primary job responsibilities involve
6.2 operating the business of the MNvest issuer rather than assisting the MNvest issuer in
6.3 raising capital;

6.4 (9) a description of any pending material litigation, legal proceedings, or regulatory
6.5 action involving the MNvest issuer or any executive officers, directors, governors,
6.6 managers, members, and other persons occupying a similar status or performing similar
6.7 functions in the name of and on behalf of the MNvest issuer;

6.8 (10) a statement of the material risks unique to the MNvest issuer and its business
6.9 plans;

6.10 (11) a statement that the securities have not been registered under federal or state
6.11 securities law and that the securities are subject to limitations on resale; and

6.12 (12) the following legend must be displayed conspicuously in the disclosure
6.13 document:

6.14 "IN MAKING AN INVESTMENT DECISION, PURCHASERS MUST RELY
6.15 ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF
6.16 THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE
6.17 SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR
6.18 STATE SECURITIES COMMISSION OR DIVISION OR OTHER REGULATORY
6.19 AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE
6.20 NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY
6.21 OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY
6.22 IS A CRIMINAL OFFENSE. THESE SECURITIES ARE SUBJECT TO
6.23 RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE
6.24 TRANSFERRED OR RESOLD EXCEPT AS PERMITTED BY SUBSECTION
6.25 (e) OF SEC RULE 147 (CODE OF FEDERAL REGULATIONS, TITLE 17, PART
6.26 230.147 (e)) AS PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS
6.27 AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT
6.28 TO REGISTRATION OR EXEMPTION THEREFROM. PURCHASERS SHOULD
6.29 BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL
6.30 RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME."

6.31 Subd. 5. **Required certification from MNvest offering purchasers.** Before
6.32 selling securities to a prospective purchaser through a MNvest portal, the MNvest issuer
6.33 shall require the portal operator to obtain from the prospective purchaser through the
6.34 applicable MNvest portal a written or electronic certification that includes, at a minimum,
6.35 the following statements:

6.36 "I UNDERSTAND AND ACKNOWLEDGE THAT:

7.1 If I make an investment in an offering through this MNvest portal, it is very likely
7.2 that I am investing in a high-risk, speculative business venture that could result in the
7.3 complete loss of my investment, and I need to be able to afford such a loss.

7.4 This offering has not been reviewed or approved by any state or federal securities
7.5 commission or division or other regulatory authority and that no such person or authority
7.6 has confirmed the accuracy or determined the adequacy of any disclosure made to me
7.7 relating to this offering.

7.8 If I make an investment in an offering through this MNvest portal, it is very likely
7.9 that the investment will be difficult to transfer or sell and, accordingly, I may be required
7.10 to hold the investment indefinitely.

7.11 By entering into this transaction with the company, I am affirmatively representing
7.12 myself as being a Minnesota resident at the time that this contract is formed, and if this
7.13 representation is subsequently shown to be false, the contract is void."

7.14 Subd. 6. **MNvest portal.** A MNvest portal must satisfy the requirements of clauses
7.15 (1) through (4):

7.16 (1) the Web site does not contain the word "MNvest" in its URL address;

7.17 (2) the Web site implements steps to limit Web site access to the offer or sale of
7.18 securities to only Minnesota residents when conducting MNvest offerings; and

7.19 (3) MNvest offerings may not be viewed on the MNvest portal by a prospective
7.20 purchaser until:

7.21 (i) the portal operator verifies, through its exercise of reasonable steps, such as using
7.22 a third-party verification service or as otherwise approved by the administrator, that the
7.23 prospective purchaser is a Minnesota resident; and

7.24 (ii) the prospective purchaser makes an affirmative acknowledgment, electronically
7.25 through the MNvest portal, that:

7.26 (A) I am a Minnesota resident;

7.27 (B) the securities and investment opportunities listed on this Web site involve
7.28 high-risk, speculative business ventures. If I choose to invest in any securities or
7.29 investment opportunity listed on this Web site, I may lose all of my investment, and
7.30 I can afford such a loss;

7.31 (C) the securities and investment opportunities listed on this Web site have not
7.32 been reviewed or approved by any state or federal securities commission or division or
7.33 other regulatory authority, and no such person or authority, including this Web site, has
7.34 confirmed the accuracy or determined the adequacy of any disclosure made to prospective
7.35 investors relating to any offering; and

8.1 (D) if I choose to invest in any securities or investment opportunity listed on this
8.2 Web site, I understand that the securities I will acquire may be difficult to transfer or sell,
8.3 that there is no ready market for the sale of such securities, that it may be difficult or
8.4 impossible for me to sell or otherwise dispose of this investment at any price, and that,
8.5 accordingly, I may be required to hold this investment indefinitely; and

8.6 (4) the Web site complies with all other rules adopted by the administrator.

8.7 Subd. 7. **Portal operator.** (a) An entity, other than a registered broker-dealer,
8.8 wishing to become a portal operator shall file with the administrator:

8.9 (1) form [to be approved by the administrator], including all applicable
8.10 schedules and supplemental information;

8.11 (2) a copy of the articles of incorporation or other documents that indicate the
8.12 entity's form of organization; and

8.13 (3) a filing fee of \$200.

8.14 (b) A portal operator's registration expires 12 months from the date the administrator
8.15 has approved the entity as a portal operator, and subsequent registration for the succeeding
8.16 12-month period shall be issued upon written application and upon payment of a renewal
8.17 fee of \$200, without filing of further statements or furnishing any further information,
8.18 unless specifically requested by the administrator. This section is not applicable to a
8.19 registered broker-dealer functioning as a portal operator.

8.20 (c) A portal operator that is not a broker-dealer registered under this chapter shall not:

8.21 (1) offer investment advice or recommendations, provided that a portal operator
8.22 shall not be deemed to be offering investment advice or recommendations merely because
8.23 it (i) selects, or may perform due diligence with respect to, issuers or offerings to be listed,
8.24 or (ii) provides general investor educational materials;

8.25 (2) provide transaction-based compensation for securities sold under this chapter to
8.26 employees, agents, or other persons unless the employees, agents, or other persons are
8.27 registered with the administrator and permitted to receive such compensation;

8.28 (3) charge a fee to the issuer for an offering of securities on a MNvest portal unless
8.29 the fee is (i) a fixed amount for each offering, (ii) a variable amount based on the length of
8.30 time that the securities are offered on the MNvest portal, or (iii) a combination of such
8.31 fixed and variable amounts; or

8.32 (4) hold, manage, possess, or otherwise handle purchaser funds or securities. This
8.33 restriction does not apply if the issuer is the portal operator.

8.34 (d) A portal operator shall provide the administrator with read-only access to
8.35 administrative sections of the MNvest portal.

9.1 (e) A portal operator shall comply with the record-keeping requirements of this
9.2 paragraph, provided that the failure of a portal operator that is not an issuer to maintain
9.3 records in compliance with this paragraph shall not affect the MNvest issuer's exemption
9.4 from registration afforded by this section:

9.5 (1) a portal operator shall maintain and preserve, for a period of five years from either
9.6 the date of the closing or termination of the securities offering, the following records:

9.7 (i) the name of each issuer whose securities have been listed on its MNvest portal;

9.8 (ii) the full name, residential address, Social Security number, date of birth, and
9.9 copy of a state-issued identification for all owners with greater than ten percent voting
9.10 equity in an issuer;

9.11 (iii) copies of all offering materials that have been displayed on its MNvest portal;

9.12 (iv) the names and other personal information of each purchaser who has registered
9.13 at its MNvest portal;

9.14 (v) any agreements and contracts between the portal operator and the issuer; and

9.15 (vi) any information used to establish that a MNvest issuer, prospective MNvest
9.16 purchaser, or MNvest purchaser is a Minnesota resident;

9.17 (2) a portal operator shall, upon written request of the administrator, furnish to the
9.18 administrator any records required to be maintained and preserved under this subdivision;

9.19 (3) the records required to be kept and preserved under this subdivision must be
9.20 maintained in a manner, including by any electronic storage media, that will permit the
9.21 immediate location of any particular document so long as such records are available for
9.22 immediate and complete access by representatives of the administrator. Any electronic
9.23 storage system must preserve the records exclusively in a nonrewriteable, nonerasable
9.24 format; verify automatically the quality and accuracy of the storage media recording
9.25 process; serialize the original and, if applicable, duplicate units storage media, and
9.26 time-date for the required period of retention the information placed on such electronic
9.27 storage media; and be able to download indexes and records preserved on electronic
9.28 storage media to an acceptable medium. In the event that a records retention system
9.29 commingles records required to be kept under this subdivision with records not required to
9.30 be kept, representatives of the administrator may review all commingled records; and

9.31 (4) a portal operator shall maintain such other records as the administrator shall
9.32 determine by rule.

9.33 **Subd. 8. Portal operator; privacy of purchaser information.** (a) For purposes of
9.34 this subdivision, "personal information" means information provided to a portal operator
9.35 by a prospective purchaser or purchaser that identifies, or can be used to identify, the
9.36 prospective purchaser or purchaser.

10.1 (b) Except as provided in paragraph (c), a portal operator must not disclose personal
10.2 information without written or electronic consent from the prospective purchaser or
10.3 purchaser that authorizes the disclosure.

10.4 (c) Paragraph (b) does not apply to:

10.5 (1) records required to be provided to the administrator under subdivision 7,
10.6 paragraph (e);

10.7 (2) the disclosure of personal information to a MNvest issuer relating to its MNvest
10.8 offering; or

10.9 (3) the disclosure of personal information to the extent required or authorized under
10.10 other law.

10.11 Subd. 9. **Bad actor disqualification.** (a) An exemption under this section is not
10.12 available for a sale if securities in the MNvest issuer; any predecessor of the MNvest
10.13 issuer; any affiliated issuer; any director, executive officer, other officer participating in
10.14 the MNvest offering, general partner, or managing member of the MNvest issuer; any
10.15 beneficial owner of 20 percent or more of the MNvest issuer's outstanding voting equity
10.16 securities, calculated on the basis of voting power; any promoter connected with the
10.17 MNvest issuer in any capacity at the time of the sale; any investment manager of an
10.18 issuer that is a pooled investment fund; any general partner or managing member of any
10.19 investment manager; or any director, executive officer, or other officer participating in
10.20 the offering of any investment manager or general partner or managing member of the
10.21 investment manager:

10.22 (1) has been convicted, within ten years before the offering, or five years, in the case
10.23 of MNvest issuers, their predecessors, and affiliated issuers, of any felony or misdemeanor:

10.24 (i) in connection with the purchase or sale of any security;

10.25 (ii) involving the making of any false filing with the Securities and Exchange
10.26 Commission or a state agency; or

10.27 (iii) arising out of the conduct of the business of an underwriter, broker, dealer,
10.28 municipal securities dealer, investment adviser, or paid solicitor of purchasers of securities;

10.29 (2) is subject to any order, judgment, or decree of any court of competent jurisdiction,
10.30 entered within five years before the sale, that, at the time of the sale, restrains or enjoins
10.31 the person from engaging or continuing to engage in any conduct or practice:

10.32 (i) in connection with the purchase or sale of any security;

10.33 (ii) involving the making of any false filing with the Securities and Exchange
10.34 Commission; or

10.35 (iii) arising out of the conduct of the business of an underwriter, broker, dealer,
10.36 municipal securities dealer, investment adviser, or paid solicitor of purchasers of securities;

11.1 (3) is subject to a final order of a state securities commission or an agency or officer
11.2 of a state performing like functions; a state authority that supervises or examines banks,
11.3 savings associations, or credit unions; a state insurance commission or an agency or
11.4 officer of a state performing like functions; an appropriate federal banking agency; the
11.5 United States Commodity Futures Trading Commission; or the National Credit Union
11.6 Administration that:

11.7 (i) at the time of the offering, bars the person from:

11.8 (A) association with an entity regulated by the commission, authority, agency, or
11.9 officer;

11.10 (B) engaging in the business of securities, insurance, or banking; or
11.11 (C) engaging in savings association or credit union activities; or

11.12 (ii) constitutes a final order based on a violation of any law or regulation that prohibits
11.13 fraudulent, manipulative, or deceptive conduct entered within ten years before the offering;

11.14 (4) is subject to an order of the Securities and Exchange Commission entered pursuant
11.15 to section 15(b) or 15B(c) of the Securities Exchange Act of 1934, United States Code,
11.16 title 15, section 78 o(b) or 78o-4(c) or section 203(e) or (f) of the Investment Advisers Act
11.17 of 1940, United State Code, title 15, section 80b-3(e) or (f) that, at the time of the offering:

11.18 (i) suspends or revokes the person's registration as a broker, dealer, municipal
11.19 securities dealer, or investment adviser;

11.20 (ii) places limitations on the activities, functions, or operations of the person; or
11.21 (iii) bars the person from being associated with any entity or from participating in
11.22 the offering of any penny stock;

11.23 (5) is subject to any order of the Securities and Exchange Commission entered
11.24 within five years before the sale that, at the time of the sale, orders the person to cease and
11.25 desist from committing or causing a violation or future violation of:

11.26 (i) any scienter-based antifraud provision of the federal securities laws, including
11.27 without limitation section 17(a)(1) of the Securities Act of 1933, United States Code, title
11.28 15, section 77q(a)(1), section 10(b) of the Securities Exchange Act of 1934, United States
11.29 Code, title 15, section 78j(b) and Code of Federal Regulations, title 17, section 240.10b-5,
11.30 section 15(c)(1) of the Securities Exchange Act of 1934, United States Code, title 15,
11.31 section 78o(c)(1) and section 206(1) of the Investment Advisers Act of 1940, United
11.32 States Code, title 15, section 80b-6(1), or any other rule or regulation thereunder; or

11.33 (ii) section 5 of the Securities Act of 1933, United States Code, title 15, section 77e;

11.34 (6) is suspended or expelled from membership in, or suspended or barred from
11.35 association with a member of, a registered national securities exchange or a registered

12.1 national or affiliated securities association for any act or omission to act constituting
12.2 conduct inconsistent with just and equitable principles of trade;

12.3 (7) has filed as a registrant or issuer, or was or was named as an underwriter in, any
12.4 registrations statement or Regulation A offering statement filed with the Securities and
12.5 Exchange Commission that, within five years before the sale, was the subject of a refusal
12.6 order, stop order, or order suspending the Regulation A exemption, or is, at the time of
12.7 the sale, the subject of an investigation or proceeding to determine whether a stop order
12.8 or suspension order should be issued; or

12.9 (8) is subject to a United States Postal Service false representation order entered
12.10 within five years before the offering, or is, at the time of the offering, subject to a
12.11 temporary restraining order or preliminary injunction with respect to conduct alleged by
12.12 the United States Postal Service to constitute a scheme or device for obtaining money or
12.13 property through the mail by means of false representations.

12.14 (b) Paragraph (a) does not apply:

12.15 (1) with respect to any conviction, order, judgment, decree, suspension, expulsion,
12.16 or bar that occurred or was issued before September 23, 2013;

12.17 (2) upon a showing of good cause and without prejudice to any other action by
12.18 the Securities and Exchange Commission, if the Securities and Exchange Commission
12.19 determines that it is not necessary under the circumstances that an exemption be denied;

12.20 (3) if, before the relevant offering, the court of regulatory authority that entered the
12.21 relevant order, judgment, or decree advises in writing, whether contained in the relevant
12.22 judgment, order, or decree or separately to the Securities and Exchange Commission or
12.23 its staff, that disqualification under paragraph (a) should not arise as a consequence of
12.24 the order, judgment, or decree; or

12.25 (4) if the MNvest issuer establishes that it did not know and, in the exercise of
12.26 reasonable care, could not have known that a disqualification existed under paragraph (a).

12.27 (c) For purposes of paragraph (a), events relating to any affiliated issuer that occurred
12.28 before the affiliation arose will not be considered disqualifying if the affiliated entity is not:

12.29 (1) in control of the issuer; or

12.30 (2) under common control with the issuer by a third party that was in control of the
12.31 affiliated entity at the time of the events.

12.32 **EFFECTIVE DATE.** This section is effective the day following final enactment.