

Chapter SEC 4

LICENSING OF BROKER-DEALERS AND AGENTS

SEC 4.01	Licensing procedure (p. 47)	SEC 4.07	License period (p. 61)
SEC 4.02	Net capital requirements and aggregate indebtedness limitations (p. 50)	SEC 4.08	Withdrawal of licenses (p. 61)
SEC 4.03	Broker-dealers' records (p. 50)	SEC 4.085	Temporary agent transfer (p. 62)
SEC 4.035	Securities agent records (p. 54)	SEC 4.09	Denial, suspension, revocation and censure (p. 62)
SEC 4.04	Reporting requirements (p. 54)	SEC 4.10	Bank agency transactions (p. 62)
SEC 4.05	Rules of conduct (p. 56)	SEC 4.11	Brokered certificates of deposit (p. 63)
SEC 4.06	Prohibited business practices (p. 59)		

Note: Chapter SEC 4 as it existed on December 31, 1977 was repealed and a new chapter SEC 4 was created effective January 1, 1978.

**SEC 4.01 Licensing procedure.** (1) Applications for initial and renewal licenses of broker-dealers and agents shall be filed with:

(a) The commissioner on forms prescribed by the commissioner in s. SEC 9.01 (1); or

(b) The central registration depository of the national association of securities dealers as developed under contract with the north american securities administrators association, on forms established for the central registration depository.

(2) (a) Except as provided in par. (b), an "application" for purposes of s. 551.32 (1) (b), Stats., means all information required by the form prescribed under sub. (1) together with any additional information required by the commissioner.

(b) An "application" for initial license or for renewal of a license as securities agent for a broker-dealer registered with the national association of securities dealers, inc. consists of the payment of Wisconsin agent license renewal fees to the central registration depository of the national association of securities dealers as developed under contract with the north american securities administrators association. An application for initial license as an agent under this paragraph shall be deemed "filed" under s. 551.32 (1) (a), Stats., on the date when the application is designated ready for approval on the records of the central registration depository. An application for renewal of a license as an agent under this paragraph shall be deemed "filed" under s. 551.32 (1) (a), Stats., when the fee on deposit with the central registration depository has been allocated to the commissioner.

(3) Unless waived under sub. (4), each applicant for an initial license as a broker-dealer or agent is required to pass the Uniform Securities Agent State Law Examination with a grade of at least 70% and pass with a grade of at least 70% one of the general securities business examinations in par. (a), unless the applicant's proposed securities activities will be restricted, in which case the applicant is required to pass each examination in pars. (b) to (e) that relates to the applicant's proposed securities activities:

(a) The Securities Exchange Commission Only/National Association of Securities Dealers Non-Member General Securities Examination or, in the case of applicants registered with the national association of secur-

ities dealers, inc., the General Securities Registered Representative Examination.

(b) The Investment Company Products/Variable Contracts Representative Examination.

(c) The Direct Participation Programs Representative Examination.

(d) The Municipal Securities Representative Examination.

(e) The Corporate Securities Limited Representative Examination.

(4) The examination requirement in sub. (3) is waived for any applicant who meets the criteria set forth in any one of the paragraphs in this subsection:

(a) The applicant has passed with a grade of at least 70% the examinations required to be passed by the applicant under sub. (3) within 2 years prior to the date the application for license is filed in this state.

(b) The applicant has been licensed, within 2 years prior to the date the application for license is filed in this state, as an agent or as a broker-dealer under the securities law of any other state that requires passing the uniform securities agent state law examination and, in the case of examinations required by sub. (3) (a) to (d) has been registered with the national association of securities dealers, inc., within two years prior to the date the application for license is filed to engage in the type of business for which the applicant is applying for license.

(c) The applicant has submitted an undertaking satisfactory to the commissioner setting forth how the applicant's activities will be limited in this state and, in the case of an agent seeking a limited license, how the agent will be adequately supervised.

(d) The applicant has been licensed under ch. 551, Stats., within 2 years prior to the date the application is filed as an agent or broker-dealer to engage in the type of business for which the applicant is applying for license.

(e) The applicant has received an order of the commissioner, issued under conditions as the commissioner may prescribe, waiving the requirement to take and pass one or more of the examinations in sub. (3).

(5) Prior to issuance of an initial license as a broker-dealer, at least one employe located at the principal office of the broker-dealer shall be designated in the license application to act in a supervisory capacity and be licensed as an agent for the broker-dealer. Each designated supervisor shall meet the examination requirement in sub. (3) and shall pass with a grade of at least 70% the examination in par. (a), unless the broker-dealer's proposed securities activities will be restricted, in which case the designated supervisor is required to pass each examination in pars. (b) to (d) that relates to the broker-dealer's securities activities, unless the examination is waived under sub. (4):

(a) The General Securities Principal Examination.

(b) The Investment Company Products/Variable Contracts Principal Examination.

(c) The Direct Participation Programs Principal Examination.

(d) The Municipal Securities Principal Examination.

(6) Any application for license which is not completed or withdrawn within 6 months from the date it is initially received may be deemed materially incomplete, and the commissioner may issue an order denying the license.

(7) A license is effective under s. 551.32 (1) (c) 4., Stats., at the following times prior to the expiration of 30 days from the filing of the application:

(a) The date that the commissioner issues a license to an agent or broker-dealer;

(b) The date that approval of licensed status as an agent or broker-dealer is transmitted by the commissioner to the applicant through the central registration depository of the national association of securities dealers, inc.; or

(c) On January 1 for any renewal application filed during December of the preceding year with the central registration depository, unless the commissioner makes a written request for additional information relevant to the application prior to January 1.

(8) A securities agent license is effective to authorize the licensee to effectuate transactions only in the types of categories of securities that the licensee has been qualified to sell by passing the examinations specified in sub. (3).

(9) For an agent to simultaneously represent in this state more than one broker-dealer or issuer pursuant to s. 551.31 (2) (b) 2., Stats., the following requirements shall be met, in addition to the regular agent licensing requirements:

(a) Each broker-dealer or issuer that the agent represents shall sign on a form designated by the commissioner in s. SEC 9.01 (1) (b), a written grant of permission to the agent to represent the other employers. The written grant of permission shall include the identity of all other securities employment affiliations of the agent and contain a listing of all restrictions on the agent's securities activities imposed by the agent's employers.

(b) The agent shall sign on the form under par. (a), an acknowledgment and verification of the information required under that paragraph.

(c) The manually signed original of the form under par. (a) shall be filed with the commissioner together with a written application, which may be in letter form, on behalf of the agent to simultaneously represent more than one broker-dealer or issuer. The commissioner shall approve the application in writing prior to the agent's transacting securities business while simultaneously representing more than one broker-dealer or issuer.

(d) Written disclosure shall be provided regarding the agent's simultaneous representation of more than one broker-dealer or issuer, including the information in par. (a), to each securities customer of the agent not later than the date of receipt of the confirmation for the first securities

transaction for the account of the customer by the agent after dual licensing is approved by the commissioner.

**History:** Cr. Register, December, 1977, No. 264, eff. 1-1-78; am. (1), Register, December, 1979, No. 288, eff. 1-1-80; am. (1) and (4) (b), r. (4) (c), renum. (4) (d) and (e) to be (4) (c) and (d), r. and recr. (5), renum. (7) to be SEC 4.05 (8), Register, December, 1980, No. 300, eff. 1-1-81; am. (1) and (3), Register, December, 1981, No. 312, eff. 1-1-82; am. (3), (5) and (6), r. (4) (a), renum. (4) (b) to (d) to be (4) (a) to (c), Register, December, 1982, No. 324, eff. 1-1-83; am. (1) (a), renum. (2) to be (2) (a) and am., cr. (2) (b) and (7), r. and recr. (3), (4) and (5), Register, December, 1983, No. 336, eff. 1-1-84; cr. (8), Register, December, 1985, No. 360, eff. 1-1-86; am. (2) (b), Register, December, 1986, No. 372, eff. 1-1-87; am. (3) (intro.) and cr. (3) (e) and (9), Register, December, 1988, No. 396, eff. 1-1-89, except (9), eff. 2-1-89.

**SEC 4.02 Net capital requirements and aggregate indebtedness limitations.** (1) Every broker-dealer, whether or not subject to rule 15c3-1 of the securities exchange act of 1934, shall maintain net capital in such minimum amounts as are designated in that rule for the activities to be engaged in by the broker-dealer in this state.

(2) The aggregate indebtedness of each broker-dealer to all other persons shall not exceed the levels prescribed under rule 15c3-1 of the securities exchange act of 1934.

(3) If a broker-dealer is an individual, the person shall segregate from personal capital an amount sufficient to satisfy the net capital requirement, and the amount so segregated shall be utilized solely for the business for which the broker-dealer is licensed.

(4) The commissioner may by order exempt any broker-dealer from the provisions of this section, either unconditionally or upon specified conditions, if by reason of the broker-dealer's membership on a national securities exchange or the special nature of its business and its financial position, and the safeguards that have been established for the protection of customers' funds and securities, the provisions are not necessary in the public interest or for the protection of investors.

**History:** Cr. Register, December, 1977, No. 264, eff. 1-1-78; am. (3) and (4), Register, December, 1980, No. 300, eff. 1-1-81; am. (1), Register, December, 1982, No. 324, eff. 1-1-83; am. (1), Register, December, 1983, No. 336, eff. 1-1-84.

**SEC 4.03 Broker-dealers' records.** (1) Every licensed broker-dealer shall prepare and keep current at its principal office the following books and records relating to its business:

(a) Blotters (or other records of original entry) setting forth an itemized daily record of all purchases and sales of securities, all receipts and deliveries of securities (including certificate numbers), all receipts and disbursements of cash and all other debits and credits. The record shall show the account for which each such transaction was effected, the name and amount of securities, the unit and aggregate purchase or sale price (if any), the trade date, and the name or other designation of the person from whom purchased or received or to whom sold or delivered.

(b) Ledgers reflecting all asset, liability, income, expense and capital accounts.

(c) Ledgers (or other records) itemizing separately as to each cash and margin account of every customer and of the broker-dealer and partners thereof, all purchases, sales, receipts and deliveries of securities and commodities for the account and all other debits and credits to the account.

(d) Ledgers (or other records) reflecting the following:

Register, December, 1989, No. 408

(c) The deadline established under par. (a) for a broker-dealer to file its annual financial statement shall be extended for an additional 30 days upon the broker-dealer filing with the commissioner before the deadline date, a written request for an additional 30 days to file its annual financial statement.

(2) Each broker-dealer shall file with the commissioner a copy of any complaint related to its business, transactions or operations in this state, naming the broker-dealer or any of its partners, officers or agents as defendants in any civil or criminal proceeding, or in any administrative or disciplinary proceeding by any public or private regulatory agency, within 20 days of the date the complaint is served on the broker-dealer; a copy of any answer or reply thereto filed by the broker-dealer within 10 days of the date such is filed; and a copy of any decision, order or sanction made with respect to any such proceeding within 20 days of the date the decision, order or sanction is rendered.

(3) Each broker-dealer shall notify the commissioner in writing within 10 days from the first date that the person who is the designated supervisor under s. SEC 4.05 (6) no longer is acting in that capacity. The notification shall either identify a substituted designated supervisor or undertake to identify to the commissioner in writing a substituted designated supervisor within the 45 day period provided under SEC 4.05 (6).

(4) Each broker-dealer shall file with the commissioner a notice of transfer of control or change of name not less than 30 days prior to the date on which the transfer of control or change of name is to become effective, or such shorter period as the commissioner may permit.

(5) Except as provided in subs. (2), (4) and (9), all material changes in the information included in a broker-dealer's most recent application for license shall be set forth in an amendment to Form BD filed with the commissioner within 30 days after the change occurs.

(6) Every broker-dealer shall file with the commissioner the following reports concerning its net capital and aggregate indebtedness:

(a) Immediate telegraphic or written notice whenever the net capital of the broker-dealer is less than is required under s. SEC 4.02 (1), specifying the respective amounts of its net capital and aggregate indebtedness on the date of the notice;

(b) A copy of every report or notice required to be filed by the broker-dealer pursuant to rule 17a-11 under the securities exchange act of 1934, contemporaneous with the date of filing with the U.S. securities and exchange commission.

(7) Each broker-dealer shall give immediate written notice to the commissioner of the theft or disappearance of any Wisconsin customers' securities or funds that are in the custody or control of any of its offices, whether within or outside this state, stating all material facts known to it concerning the theft or disappearance.

(8) Each broker-dealer shall file with the commissioner a copy of any subordination agreement relating to the broker-dealer, within 10 days after the agreement has been entered, unless prior thereto the broker-dealer has filed a copy of the agreement with a national securities exchange or association of which it is a member.

(9) Each broker-dealer shall notify the commissioner in writing at least 14 days prior to either opening or closing in this state any "branch office" as defined in s. SEC 1.02 (7). The notification shall include such information as the commissioner may request.

(10) Each broker-dealer shall file annually with the commissioner not later than November 30, a report identifying each of its branch offices located in this state on Form BDBrO(WI) designated by the commissioner in s. SEC 9.01 (1) (b).

**History:** Cr. Register, December, 1977, No. 264, eff. 1-1-78; am. (1) and (3), Register, December, 1979, No. 288, eff. 1-1-80; am. (4), (5), (8) and (9), Register, December, 1980, No. 300, eff. 1-1-81; am. (1) and (7), cr. (1) (b), Register, December, 1982, No. 324, eff. 1-1-83; am. (1) (a), Register, December, 1983, No. 336, eff. 1-1-84; r. and recr. (1) (a), renun. (1) (b) to be (1) (c), cr. (1) (b) and am. (9), Register, December, 1984, No. 348, eff. 1-1-85; cr. (10), Register, December, 1985, No. 360, eff. 1-1-86; r. and recr. (3), Register, December, 1989, No. 408, eff. 1-1-90.

**SEC 4.05 Rules of conduct.** (1)(a) Except as provided in pars. (b) and (c), each broker-dealer shall give or send to the customer a written confirmation, promptly after execution of, and before completion of, each transaction. The confirmation shall set forth the information prescribed in rule 10b-10 of the securities and exchange act of 1934 and whether the transaction was unsolicited.

(b) A broker-dealer engaged solely in the offer and sale of securities issued by open-end investment companies, face amount certificate companies or unit investment trusts registered under the investment company act of 1940 is not required to give or send a written confirmation under par. (a), provided that the issuer gives or sends a written confirmation directly to the customer for the transaction.

(c) A broker-dealer engaged solely in the offer and sale of interests in direct participation programs is not required to give or send a written confirmation under par. (a), provided that a customer subscribing to purchase an interest in a direct participation program is provided immediately upon subscription with a copy of the subscription agreement entered into and the issuer gives or sends a written confirmation directly to the customer for the transaction.

(2) Each broker-dealer shall establish and keep current a set of written supervisory procedures and a system for applying such procedures, which may be reasonably expected to prevent and detect any violations of ch. 551, Stats., and rules and orders thereunder. The procedures shall include the designation, by name or title, of a number of supervisory employees reasonable in relation to the number of its licensed agents, offices and transactions in this state. A complete set of the procedures and system for applying them shall be kept and maintained at every branch office.

(3) A broker-dealer shall not enter any contract with a customer if the contract contains any condition, stipulation or provision binding the customer to waive any rights under ch. 551, Stats., or any rule or order thereunder. Any such condition, stipulation or provision is void.

(4) No broker-dealer shall permit or effect a withdrawal of any part of its net worth, including subordinated indebtedness, whether by redemption, retirement, repurchase, repayment or otherwise, that would cause its net capital or its aggregate indebtedness to violate s. SEC 4.02 (1) or (2), without prior written approval of the commissioner.