

## Chapter DFI-Sec 2

## REGISTRATION EXEMPTIONS AND FEDERAL COVERED SECURITY NOTICE FILINGS

DFI-Sec 2.01	Exempt securities	DFI-Sec 2.028	Wisconsin issuer registration exemption by filing
DFI-Sec 2.02	Exempt transactions	DFI-Sec 2.03	Exemption proceedings
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Note: Chapter SEC 2 was renumbered chapter DFI-Sec 2 under s. 13.93 (2m) (b) 1., Stats., and corrections made under s. 13.93 (2m) (b) 6. and 7., Stats., Register, December, 1996, No. 492.

**DFI-Sec 2.01 Exempt securities. (1)** (a) Any revenue obligation payable from payments to be made in respect of property or money used under a lease, sale or loan arrangement by or for a nongovernmental industrial or commercial enterprise, is exempted under s. 551.22 (1), Stats., if:

1. The enterprise is a public utility described under s. 551.22 (6), Stats., having securities registered under section 12 of the securities exchange act of 1934, or is a wholly-owned subsidiary of one or more of such utilities.

2. Any securities of the enterprise, or any securities of an unconditional guarantor of all payments under the lease, sale or loan arrangement, are covered securities under section 18(b)(1) of the securities act of 1933 or are exempt under s. 551.22 (7), Stats.

3. A notice of the proposed offering is filed with the division prior to the offering, including a trust indenture meeting the requirements of s. DFI-Sec 3.04, an official statement or a prospectus meeting the requirements of s. DFI-Sec 3.03 that contains financial statements for the enterprise meeting the requirements of s. DFI-Sec 3.02 (1) (p) and additional information as the division may require, and the division does not by order deny the exemption within 10 days of the date the notice is filed.

(b) Any guarantee of, or any put option or similar agreement to purchase from a holder of, any security exempt under s. 551.22 (1), Stats., is exempted from s. 551.21, Stats.

(c) For purposes of the registration exemption provision of s. 551.22 (1), Stats., requiring the financial statements of certain issuers to be prepared according to generally accepted accounting principles or guidelines which the division of securities designates by rule, a security is exempted from registration thereunder if:

1. The issuer's annual financial statements for fiscal years commencing on or after January 1, 1982, are prepared according to generally accepted accounting principles as established by the National Council on Governmental Accounting, Statement 1, "Governmental Accounting and Financial Report Principles" (March 1979) or other rule-making body designated under rule 203 of The Professional Ethics Code of the American Institute of Certified Public Accountants; or

2. The issuer's annual general purpose financial statements relating to fiscal years ending on or before December 31, 1997, are prepared according to generally accepted accounting principles as provided in subd. 1., except that the auditor's opinion is qualified with respect to the omission of component units required to be included by governmental accounting standards board statement no. 14.

3. The issuer's annual general purpose financial statements relating to fiscal years ending on or before December 31, 1997, are prepared according to generally accepted accounting principles as provided in subd. 1., except that the auditor's opinion is qualified with respect to the unaudited financial statements of an included component unit.

4. The issuer's general purpose financial statements relating to fiscal years ending on or before December 31, 1997, are prepared according to generally accepted accounting principles as provided in subd. 1., except that the auditor's opinion is qualified with respect to the general purpose financial statements for component units whose financial statements are not presented in accordance with generally accepted accounting principles, but which are included in the reporting entity in accordance with governmental accounting standards board statement no. 14.

5. The issuer's annual general purpose financial statements are prepared according to generally accepted accounting principles as provided in subd. 1., except that the auditor's opinion is qualified with respect to the recognition of property tax revenue.

(d) Determination of accounting principles or guidelines. Whether financial statements meet the requirements of par. (c), shall be conclusively determined by the last available auditor's opinion relating to the issuer's financial statements for a fiscal year ending not more than 21 months prior to the offering. The auditor's opinion may be conclusively relied upon by third parties for purposes of such determination. The opinion shall meet the requirements of rule 2.02 of regulation S-X of the U.S. securities and exchange commission in 17 CFR H210.2-02 and provide that:

1. With respect to par. (c) 1., the financial statements are prepared in accordance with generally accepted accounting principles, or equivalent language;

2. With respect to par. (c) 2., the financial statements are prepared in accordance with generally accepted accounting principles, except that the auditor's opinion is qualified with respect to component units required to be included by governmental accounting standards board statement no. 14, or equivalent language.

3. With respect to par. (c) 3., the financial statements are prepared according to generally accepted accounting principles, except that the auditor's opinion is qualified with respect to the unaudited financial statements of an included component unit, or equivalent language.

4. With respect to par. (c) 4., the financial statements are prepared according to generally accepted accounting principles, except that the auditor's opinion is qualified with respect to the general purpose financial statements for component units whose financial statements are not presented in accordance with generally accepted accounting principles, but which are included in the reporting entity in accordance with governmental accounting standards board statement no. 14, or equivalent language.

5. With respect to par. (c) 5., the financial statements are prepared in accordance with generally accepted accounting principles, except that the auditor's opinion is qualified with respect to the recognition of property tax revenue, or equivalent language.

(2) For purposes of s. 551.22 (3), Stats., an issuer or a guarantor is "subject to regulation in respect of the issuance or guarantee of its securities by a governmental authority" if that governmental authority has authority to regulate the issuer's or guarantor's business and the terms of the particular securities to be offered and sold.

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(3) The Chicago stock exchange is designated as a national securities exchange qualifying for registration exemption status under s. 551.22 (7), Stats., but only with respect to Tier 1 securities listed on that exchange, provided that proposed rule changes with respect to its Tier 1 securities are approved by the U.S. securities and exchange commission, and provided that a Memorandum of Understanding is entered into and is in force and effect between the Chicago stock exchange and the north american securities administrators, inc. The designation is subject to the authority of the division to revoke the designation by order based upon a determination that the exchange's requirements for listing or maintenance for Tier 1 securities as contained in the Memorandum of Understanding and as published in the Commerce Clearing House NASAA Reports, have been so changed or insufficiently applied that the protection of investors contemplated by the exemption no longer exists. The division also may deny or revoke, by order, registration exemption status accorded by this paragraph with respect to a specific issue of securities or category of securities on the exchange. The issuance of any order by the division under this paragraph shall be in accordance with the provisions of the Memorandum of Understanding relating to notice of and opportunity for hearing, written findings of fact and conclusions of law, and judicial review.

(4) (a) Any evidence of debt issued by a domestic non-profit corporation to persons other than its members is exempted under s. 551.22 (8), Stats., if the issuer or a licensed broker-dealer files a notice of the proposed issuance with the division prior to the offering, including: a trust indenture meeting the requirements of s. DFI-Sec 3.04, under which the evidence of debt is proposed to be issued; a prospectus describing the issuer, the trust indenture and the evidence of debt proposed to be issued, which shall be given or sent to each person to whom an offer of such evidence of debt is made at the time or times specified in s. DFI-Sec 3.03 (1); and such additional information as the division may require; and the division does not by order deny or revoke the exemption within 10 days. In addition, if the domestic non-profit corporation is or operates as a church, the offering shall meet the requirements of s. DFI-Sec 3.03 (4) (h), and if the domestic non-profit corporation is or operates as a health care facility, the offering shall meet the requirements of s. DFI-Sec 3.03 (4) (i).

(b) A person does not become a "member" for purposes of s. 551.22 (8), Stats., solely by reason of the purchase of the issuer's securities.

(5) "Commercial paper" exempted under s. 551.22 (9), Stats., means any note, draft or bill of exchange, which:

(a) Evidences an obligation to pay cash within 9 months of the date of issuance, exclusive of days of grace, any renewal of the paper which is likewise limited, or any guarantee of the paper or the renewal;

(b) Is offered or sold through a broker-dealer that is in compliance with s. 551.31 (1), Stats., or an institution described in s. 551.22 (3), Stats., or a state or any agency or political subdivision thereof, whether the person is acting for itself or for the account of a customer;

(c) Is not offered or sold to the general public by means of the publication or circulation of any advertising; and

(d) Is issued to finance liquid current assets (including inventories and receivables) or current operating expenses.

(6) A notice filing under s. 551.22 (10), Stats., for an employee plan that does not qualify for the self-executing registration exemption in s. DFI-Sec 2.02 (9) (m) shall consist of a complete description of the plan, including any advertising to be published, circulated or used, and the \$200 fee prescribed in s. DFI-Sec 7.01 (2).

(7) Any security issued by a licensed broker-dealer to its officers, partners or employees is exempted under s. 551.22 (14), Stats., if:

(a) The issuer files with the division prior to the offering a notice of the proposed issuance and such additional information as the division requires, and the division does not by order disallow the exemption within 10 days; or

(b) The security evidences a temporary subordinated borrowing by a broker-dealer that is a member of a national securities exchange, which is made in accordance with the rules of that exchange.

(8) Any security issued or guaranteed as to both principal and interest by an international bank of which the United States is a member is exempted under s. 551.22 (17), Stats.

(9) Any security, other than a revenue obligation, issued by the state of Wisconsin or any political subdivision or agency or corporate or other instrumentality of the state of Wisconsin, is exempted under s. 551.22 (17), Stats., if it is a security which matures within 16 months of date of issue and the issuer has levied a direct annual irrepealable tax under article XI, section 3, Wis. Const. or otherwise pledged levied taxes sufficient in amount to pay the interest on the securities as it falls due and also to pay and discharge the principal on the securities at maturity.

(10) (a) Any security, other than a revenue obligation, issued by the state of Wisconsin or any political subdivision or agency or corporate or other instrumentality of the state of Wisconsin, is exempted under s. 551.22 (17), Stats., if a notice of the proposed offering containing the information in par. (b) is filed with the division prior to the offering and the division does not by order deny the exemption within 10 days of the date the notice is filed.

(b) A notice filed under par. (a) shall include the following information:

1. The nature and cost of the project to be financed with the borrowed funds;

2. A statement of any other funds which may be needed to complete the project;

3. Reference to the statutory authority for issuance of the securities;

4. Whether the securities are general obligations of the issuer secured by a constitutionally mandated irrepealable tax levy;

5. Equalized value and, if available, assessed value relating to the property located in the geographical boundaries of the issuer for the preceding 5 years;

6. The issuer's debt limit and the aggregate amount of existing constitutional debt and unused borrowing margin;

7. The most recent U.S. census population and current estimated population within the geographic boundaries of the issuer;

8. The issuer's net tax rate for the last 5 years based upon equalized value and, if available, upon assessed value;

9. The dollar amount of tax levies of the issuer for the last 5 years;

10. A statement relating to any pending litigation which may have a material adverse financial impact upon the issuer or upon the securities;

11. The 5 largest employers in the relevant geographic area;

12. The 5 largest taxpayers in the issuer's geographic boundaries;

13. The executive officers of the issuer;

14. The issuer's financial statements for the preceding 3 years for which such statements are available. If the date of the financial statements for the issuer's most recent fiscal year is more than 180 days prior to the date of a filing for exemption under this subsection, the financial statements shall be updated by providing interim statements, that may be unaudited, to within 180 days of the date of filing;

15. The issuer's current general fund and debt service fund balances as at the end of the month preceding the filing of the notice; and

16. Whether the securities will be accompanied at delivery by an opinion of bond counsel to the effect that the securities are validly authorized and issued and are exempt from present federal income taxes.

(c) The requirements of par. (b) may be satisfied by an Official Statement or other disclosure document relating to the securities being offered containing at least the information required in par. (b).

(d) A notice filed under par. (a) shall be accompanied by:

1. A copy of any proposed resolution or resolutions of the governing body of the issuer relating to the authorization and issuance of the securities;

2. An opinion of bond counsel, or counsel to the issuer, to the effect that all appropriate steps to date necessary for the sale of the securities have been duly taken;

3. A proposed form of the securities;

4. A copy of the notice of sale, if applicable, relating to the securities or a reference to the same indicating where it may be located;

5. A consent to service of process and resolution relating to the same, certified by the secretary or clerk of the issuer;

6. A copy of the disclosure document for the offering to be provided to offerees containing the information required in par. (b);

7. A cross-reference sheet indicating where each information item listed in par. (b) can be found in the Official Statement or disclosure document for the offering;

8. The fee prescribed by s. DFI-Sec 7.01 (2); and

9. Such additional information as the division may require.

**History:** Cr Register, December 1969, No. 168, eff. 1-1-70; r. and recr. Register, August, 1972, No. 200, eff. 9-1-72; cr. (6), Register, October, 1974, No. 226, eff. 11-1-74; r. (1), renum. (6) to be (1) and am., renum. (2) to (5) to be (3) to (6), am. (3) and (4), r. and recr. (5), cr. (2) and (7), Register, December, 1977, No. 264, eff. 1-1-78; am. (2), r. (3), renum. (4), (5) and (7) to be (3), (4) and (5), am. (3) (a), cr. (7) and (8), Register, September, 1978, No. 273, eff. 10-1-78; emerg. am. (1) (a) 2., eff. 10-1-78; am. (1) (a) 2., Register, January, 1979, No. 277, eff. 2-1-79; am. (7) (d) and (h), Register, December, 1979, No. 288, eff. 1-1-80; am. (1) (a) 1. to 3., (3) (a), (4) (a) and (b), (5) (f), (6) (a) and (7) (a) and (d), Register, December, 1980, No. 300, eff. 1-1-81; am. (1) (a) 3. and (3) (a), cr. (7m), Register, December, 1981, No. 312, eff. 1-1-82; emerg. cr. (1) (c) and (d), (10), (11) and (12), eff. 5-1-82; cr. (1) (c) and (d), (9), (10) and (11), Register, September, 1982, No. 321, eff. 10-1-82; am. (7) (d), Register, December, 1982, No. 324, eff. 1-1-83; am. (1) (a) 3., Register, December, 1983, No. 336, eff. 1-1-84; am. (1) (a) 3., r. (10), renum. (11) to be (10), Register, December, 1985, No. 360, eff. 1-1-86; emerg. am. (1) (a), r. (7), eff. 1-1-86; r. (7), renum. (8) to (10) to be (7) to (9), Register, March, 1986, No. 363, eff. 4-1-86; am. (1) (a), Register, May, 1986, No. 365, eff. 6-1-86; emerg. am. (1) (c) 3., eff. 7-1-86; am. (1) (b), (c) 2. and 3., (3) (a) and (4) (b), r. (7m), Register, December, 1986, No. 372, eff. 1-1-87; emerg. am. (1) (c) 3., eff. 7-1-88; am. (1) (c) 3. and (9) (b) 14., Register, December, 1988, No. 396, eff. 1-1-89; renum. (3) to (9) to be (4) to (10), cr. (3), Register, December, 1990, No. 420, eff. 1-1-91; renum. (3) to be (3) (a), cr. (3) (b), Register, December, 1991, No. 432, eff. 1-1-92; emerg. cr. (1) (c) 4. to 6., (d) 4. to 6., eff. 5-1-94, cr. (1) (c) 4. to 6., (d) 4. to 6., Register, September, 1994, No. 465, eff. 10-1-94; am. (1) (a), 3., r. (1) (c) 2. and 3., (d) 2. and 3., renum. (1) (c) 4., 5. and 6., (d) 4., 5. and 6. to be (1) (c) 2. to 4. and (d) 2. to 4., cr. (3) (c) and (d), Register, December, 1995, No. 480, eff. 1-1-96; emerg. cr. (1) (c) 5. and (d) 5., eff. 7-1-96; cr. (3) (e), Register, July, 1996, No. 487, eff. 8-1-96; cr. (1) (c) 5., (d) 5., Register, November, 1996, No. 491, eff. 12-1-96; renum. (6) (intro.) to be (6) and am., r. (6) (a) to (h), Register, December, 1996, No. 492, eff. 1-1-97; corrections in (1) (a) and (4) (a) made under s. 13.93 (2m) (b) 7., Stats., Register, March, 1997, No. 495; am. (1) (a) 2., (9) and (10) (a), r. (3) (a) to (d), Register, December, 1998, No. 516, eff. 1-1-99; correction made under s. 13.93 (2m) (b) 1., Stats., Register, December, 1998, No. 516.

**DFI-Sec 2.02 Exempt transactions.** (1) An "isolated nonissuer transaction" within the meaning of s. 551.23 (1), Stats., includes:

(a) Any sale of an outstanding security by or on behalf of a person not in control of the issuer or controlled by the issuer or under common control with the issuer and not involving a distribution; but if the sale is effected through a broker-dealer, the transaction is deemed isolated only if it is one of not more than 5 such transactions effected by or through the broker-dealer in this state during the prior 12 months; and

(b) Any sale of an outstanding security by or on behalf of a person in control of the issuer or controlled by the issuer or under common control with the issuer if the sale is effected pursuant to

brokers' transactions in accordance with section 4 (4) of the Securities Act of 1933 and rule 144 thereunder; or pursuant to any other transaction not effected through a broker-dealer and not involving a distribution if the sale, including any other sales by the person of securities of the same class during the prior 12 months, does not exceed 1% of the outstanding shares or units of that class.

(2) In any nonissuer transaction effected by or through a licensed broker-dealer under s. 551.23 (2), Stats., pursuant to an unsolicited order or offer to purchase, the broker-dealer shall obtain from the purchaser a written acknowledgment that the purchase was unsolicited, or the confirmation delivered to the purchaser or a memorandum delivered in connection therewith shall confirm that the purchase was unsolicited by the broker-dealer or any agent of the broker-dealer. This exemption includes only transactions between a broker-dealer and a purchaser of a security.

(3) Any sale of an outstanding security is exempted under s. 551.23 (3), Stats., if:

(a) With respect to a security qualifying under s. 551.23 (3) (c), Stats., the issuer or a licensed broker-dealer files a notice of the proposed sale with the division prior to the offering, including the latest prospectus filed under the securities act of 1933 describing the securities proposed to be sold, a copy of the issuer's articles of incorporation and bylaws, or equivalents, as currently in effect, and the information concerning the public market for the security. The exemption, unless denied or revoked by order of the division within 10 days, is effective so long as the issuer is filing periodic information, documents and reports under section 15 (d) of the securities exchange act of 1934.

(b) With respect to a security qualifying under s. 551.23 (3) (d), Stats., the issuer or an applicant files with the division prior to the offering a notice of the proposed sale, including: the prospectus used in the most recent offering of the securities proposed to be sold; a copy of the issuer's articles of incorporation and by-laws, or equivalents, as currently in effect; any information specified in ss. DFI-Sec 3.02 and 3.03, and not contained in the filed prospectus; the trust indenture, if any, under which the securities proposed to be sold are issued; the information concerning the public market for the security; a balance sheet of the issuer as of the end of the last fiscal year of the issuer preceding the date of filing and statements of income and changes in financial position and analysis of surplus for such fiscal year meeting the requirements of s. DFI-Sec 7.06; an undertaking to file with the division within 120 days (180 days with respect to a corporation organized and operated not for private profit but exclusively for religious, educational, benevolent or charitable purpose) after the end of each fiscal year of the issuer comparable financial statements of the issuer for each such fiscal year; and an undertaking to furnish the division with a written report within 30 days after the happening of any material event affecting the issuer or the securities proposed to be sold. The exemption, unless disallowed by order of the division within 10 days, is effective so long as the information required to be furnished is kept current.

(4) A "financial institution or institutional investor" within the meaning of s. 551.23 (8), Stats., includes:

(a) An endowment or trust fund of a charitable organization specified in section 170 (b) (1) (A) of the Internal Revenue Code;

(b) An issuer which has any class of securities registered under section 12 of the Securities Exchange Act of 1934, and any wholly owned subsidiary thereof;

(c) A venture capital company as a result of meeting any of the following requirements:

1. Operating a small business investment company licensed under the small business investment act of 1958, as amended 15 USC 631.

2. Being a corporation, partnership or association whose net assets exceed \$1,000,000 and either:

a. Whose principal purpose as stated in its articles, by-laws or other organizational instruments is investing in securities; or

b. Whose primary business is investing in developmental stage companies or eligible small business companies as defined in the regulations of the small business administration at 13 CFR 108.2.

(d) Any "qualified institutional buyer" as defined and listed in section 230.144A under the securities act of 1933 as amended inclusive to October 22, 1992, whether acting for its own account or the accounts of other qualified institutional buyers that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with the qualified institutional buyer.

(e) Any entity, all of the equity owners of which are persons designated in s. 551.23 (8), Stats., or rules thereunder, acting for its own account or the accounts solely of other persons designated in s. 551.23 (8), Stats., or rules thereunder.

(f) Any other person or entity whom the division by order designates.

(g) An "individual accredited investor" for purposes of s. 551.23 (8) (g), Stats., means any of the following:

1. Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;

2. Any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his or her purchase exceed \$1,000,000; or

3. Any natural person who had an individual income in excess of \$200,000 in each of the 2 most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year.

(h) Any "accredited investor" as defined and listed in section 230.501(a)(1), (2), (3) or (7) under Regulation D under sections 3(b) and 4(2) of the securities act of 1933.

(5) With respect to an offer or sale of a security exempted under s. 551.23 (10) or (11), Stats.:

(a) Offerees or persons holding directly or indirectly all the issuer's securities include all joint or common owners and all beneficial owners of its securities, and all beneficial owners of any corporation, partnership, association or trust holding any of the issuer's securities and organized in connection with the offer or sale of the securities, provided that any relative or spouse, or any relative of the spouse, taking or holding the securities in joint or common tenancy with and having the same home as the offeree or person, shall not be deemed a separate offeree or person;

(b) Issuers affiliated by reason of direct or indirect control or persons affiliated by reason of direct or indirect control of any issuer are deemed to be a single issuer or person; but use of an exemption for the offer and sale of securities by such affiliated issuer or person shall not be denied on account of such affiliation provided the offer and sale are not part of a common business purpose or plan of offering, or if upon the filing of an application the division so orders. A "common business purpose or plan of offering" is presumed where the offer or sale of securities is not separate and distinct from another offer and sale of securities with respect to (i) the application of proceeds, (ii) the physical proximity of real property or other assets, or (iii) the financial affairs of the business;

(c) A commission or fee may be paid to a broker-dealer or agent licensed in this state for services rendered in connection with a sale of securities effected under s. 551.23 (11), Stats.; and

(d) The exemption for any offer or sale under s. 551.23 (11), Stats., is withdrawn with respect to:

1. Except as provided in this subdivision, any offer or sale of interests in a limited partnership that is or will be primarily

engaged in oil, gas or mining activities, any investment contract irrespective of the kind of assets held or business engaged in by the enterprise, or any certificate of interest or participation in an oil, gas or mining title or lease, or in payments out of production under the title or lease, if the aggregate offering price or face amount, whichever is greater, of all securities to be offered by or on behalf of the issuer, together with the value of any securities sold to persons in this state by or on behalf of the issuer during the prior 12 months, exceeds \$100,000, unless prior to the offering the issuer files a notice of the proposed offer or sale with the division, including any prospectus, circular or other material to be delivered to offerees, and other information as the division may require, and the division does not by order withdraw, deny or revoke the exemption within 10 days. This paragraph is not applicable to any offer or sale made by a broker-dealer licensed in Wisconsin if the broker-dealer is not affiliated with either the issuer or sponsor of the issuer by means of direct or indirect common control;

2. Any offering of securities if the issuer, any of its officers, directors, general partners, controlling persons or affiliates thereof are or would be disqualified from use of the registration exemption in s. 551.23 (19), Stats., as a result of any of the causes specified in s. 551.23 (19) (c) 1. a. to d., except for any person or persons subject to a disqualification who meets the conditions for waiver in s. 551.23 (19) (c) 2. a. or for any person who receives a waiver by the division upon a showing of good cause that it is not necessary under the circumstances that use of the exemption be withdrawn.

(6) "Class vote" within the meaning of s. 551.23 (13), Stats., includes any vote pursuant to the articles of incorporation or the applicable corporation statute, of the stockholders of a corporation voting as one class, and any vote of stockholders of any class taken in accordance with the provisions of s. 180.1004, Stats., or comparable provisions of the articles of incorporation or of an applicable corporation statute of another state.

(7) (a) "Stock split" within the meaning of s. 551.23 (14), Stats., does not include any action by the corporation which has or may have the effect of consolidating securities of a class of outstanding equity securities into a smaller number of securities of that class;

(b) "Stock dividend" within the meaning of s. 551.23 (14), Stats., includes the issuance of shares under a dividend reinvestment plan in which the election by a shareholder to participate in the plan is voluntary and such election may be rescinded at any time upon notice to the issuer.

(8) Notice of an offer of an evidence of debt of a non-profit corporation exempted under s. 551.23 (15), Stats., shall be filed with the division prior to the offering, and shall include: a trust indenture meeting the requirements of s. DFI-Sec 3.04 under which the evidence of debt is proposed to be issued; a prospectus describing the issuer, trust indenture and evidence of debt proposed to be issued, which shall be given or sent to each person to whom an offer of such evidence of debt is made at the time or times specified in s. DFI-Sec 3 03 (1); such additional information as the division may require; and

(a) With respect to an offer qualifying under s. 551.23 (15) (a), Stats., a signed or conformed opinion of counsel for the issuer or other evidence satisfactory to the division with respect to the validity and rank of the lien of the mortgage or deed of trust and evidence satisfactory to the division that the total amount of the securities proposed to be offered does not exceed 50% of the then fair market value of the land and buildings included in the mortgage or deed of trust, less the amount of any unpaid special assessment taxes; or

(b) With respect to an offer qualifying under s. 551.23 (15) (b), Stats., a balance sheet of the issuer as of the end of the last fiscal

year of the issuer preceding the date of filing, and statements of income and changes in financial position and an analysis of surplus of the issuer for each of its 3 immediately preceding fiscal years meeting the requirements of s. DFI-Sec 7.06.

(c) In addition, if the non-profit corporation is or operates as a church, the offering shall meet the requirements of s. DFI-Sec 3.03 (4) (h), and if the domestic non-profit corporation is or operates as a health care facility, the offering shall meet the requirements of s. DFI-Sec 3.03 (4) (i).

(9) The following transactions are exempted under s. 551.23 (18), Stats., without limiting the division's authority thereunder:

(a) An exemption under this subsection is available until October 11, 1999 for any isolated issuer transaction relating to redeemable securities of an investment company registered under the investment company act of 1940, effected through a licensed broker-dealer pursuant to an unsolicited order or offer to purchase, provided that the broker-dealer obtains from the purchaser a written acknowledgment that the purchase was unsolicited or the confirmation delivered to the purchaser or a memorandum delivered in connection therewith confirms that the purchase was unsolicited by the broker-dealer or any agent of the broker-dealer. A transaction is presumed to be "isolated" if it is one of not more than 3 such transactions during the prior 12 months.

(b) Any issuance of securities by a corporation in a transaction meeting the requirements of section 368 (a) (1) (B) of the internal revenue code, if the issuer files with the division prior to the offering the reorganization agreement and plan pursuant to which the securities are proposed to be issued and additional information as the division may require, and the division does not by order disallow the exemption within 10 days from the date of filing.

(c) Any transaction pursuant to an offer to existing security holders of the issuer, other than an entity designated in s. 551.52 (1) (b), Stats., and to not more than 10 other persons in this state less the number of persons in this state with whom the issuer has effected any transactions during the period of 12 months preceding the offer pursuant to s. 551.23 (10) or (11), Stats., if no commission or other remuneration other than a standby commission is paid or given directly or indirectly for soliciting any security holder in this state; and if the issuer files with the division prior to the offering a notice specifying the terms of the offer, including any prospectus, circular or other material to be delivered to offerees in connection with the transaction and such other information as the division may require, and the division does not by order disallow the exemption within 10 days.

(d) Any transaction incident to a vote of security holders of any issuer other than a corporation, pursuant to its organizational instrument or the applicable statute of any state, on a reorganization or a sale or transfer of assets in consideration of the issuance of securities of another person.

(e) Any offer or sale of securities pursuant to a transaction not involving a public offering under the securities act of 1933 which the division by order exempts upon application filed by the issuer or seller, including such information as the division may require, effected in compliance with such conditions as the division may prescribe.

(f) Any offer or sale of securities to the employees or agents of the issuer or its subsidiaries pursuant to a stock option plan that does not qualify for the self-executing registration exemption in par. (m), provided there is filed with the division a notice consisting of a complete description of the plan including any advertising to be published, circulated or used, the \$200 fee prescribed in s. DFI-Sec 7.01 (2), and the division does not by order disallow the exemption within 10 days after the date of filing the notice or, if additional information is required under s. 551.24 (6), Stats., within 10 days after the date of filing that information.

(g) Any offer by a licensed broker-dealer pursuant to a preliminary prospectus, provided all the following requirements are met:

1. The securities are the subject of a registration statement filed under s. 551.25 or 551.26, Stats., or a notice filed under s. 551.22 (1) or (8) or 551.23 (12) or (15), Stats.;

2. The preliminary prospectus has been filed with the U.S. securities and exchange commission or the division for a period of 10 days, and the division does not by order deny the exemption; and

3. Before the securities referred to in subd. 1. may legally be sold, no customer funds are received and no customer signs any subscription agreement or similar document relating to the securities offered other than a tentative reservation of securities that is not binding on the subscriber until ratified by the subscriber after the securities may legally be sold.

(h) Any transaction, in other than the initial public offering, involving any government security, other than a revenue obligation and other than a security issued or guaranteed by the United States, or any agency or corporate instrumentality of the United States, where the government security is of investment quality rating as determined by the office of the division of banking for the state of Wisconsin or by the comptroller of the currency by virtue of credit worthiness, or any transaction involving any government security dated prior to the effective date of this paragraph.

(i) Any offer or sale of securities that qualifies for use of a transactional registration exemption under s. DFI-Sec 2.027 or 2.028.

(j) Offers or sales of a discretionary or managed trading account involving discretion or management provided by a broker-dealer licensed in this state or by an investment adviser licensed in this state.

(k) Any offer, but not a sale, of a security through a presentation to potential investors at an organized venture capital fair or other investment forum designated in writing by the division. In order to be designated as a venture capital fair or investment forum for purposes of this exemption, a written application for designation shall be submitted to the division either by a sponsor of the fair or forum or by any interested person if accompanied by the written affirmation of a sponsor, setting forth the dates, places and times the activity will take place, the names and addresses of all sponsors of the activity, and the criteria to be met for a firm or person to participate in the fair or forum. Within 10 days from the receipt of the application or 10 days from the date of receipt of any amendment or supplemental information to the application required by the division, the division shall either designate the applicant a venture capital fair or investment forum or notify the applicant in writing why such a designation will not be made. For purposes of this paragraph, the terms "venture capital fair" or "investment forum" include, but are not limited to, gatherings open to public attendance that are sponsored by one or more not-for-profit entities at which persons representing existing or proposed businesses may make presentations regarding their business plans and products, or their financing or investment capital needs or proposals.

(L) An exemption under this subsection is available until October 11, 1999 for any transaction by the sponsor of a unit investment trust involving the resale of a share of beneficial interest in the trust that meets all of the following conditions:

1. The sponsor acquired the share of beneficial interest in the secondary market.

2. The share of beneficial interest had been sold in the secondary market by a public holder of the share after the initial public offering of shares by the trust had been completed.

(m) Offers or sales of a security by an issuer pursuant to a written compensatory benefit plan including, without limitation, a purchase, savings, option, bonus, stock appreciation, profit-sharing, thrift, incentive, pension or similar plan, and interests in any such plan, provided that the offers and sales qualify for use of the



registration exemption in rule 230.701 under section 3(b) of the securities act of 1933.

**History:** Cr. Register, December 1969, No. 168, eff. 1-1-70; r and recr. Register, August, 1972, No. 200, eff. 9-1-72; emerg. cr. (11), eff. 11-4-75; cr. (11), Register, February, 1976, No. 242, eff. 3-1-76. Am. (1) (a), (3) (a), and (b), (5) and (6), renum. (9) (10) and (11) to be (10), (11) and (9), am. (9) (10) (intro.) and (11) (a) and (e), r and recr. (10) (b), cr. (11) (f) and (g), Register, December, 1977, No. 264, eff. 1-1-78; am. (6) (b) and (d) 1., Register, September, 1978, No. 273, eff. 10-1-78; am. (5) (c), (6) (b) and (11) (f) 6., Register, December, 1979, No. 288, eff. 1-1-80; am. (1) (b), (2) and (3) (a) and (b), r. (4), renum. (5) to (11) to be (4) to (10), and am. (5) (a), (c), and (d) 1., (6), (9) and (10), Register, December, 1980, No. 300, eff. 1-1-81; cr. (9) (c) and am. (10) (d), Register, December, 1981, No. 312, eff. 1-1-82; emerg. cr. (10) (h), eff. 5-1-82; cr. (10) (h), Register, September, 1982, No. 321, eff. 10-1-82; am. (3) (a) and (5) (d) 1., cr. (10) (i), Register, December, 1982, No. 324, eff. 1-1-83; cr. (10) (j), Register, August, 1983, No. 332, eff. 9-1-83; am. (1) (a), (5) (d) 1 and (10) (b), Register, December, 1983, No. 336, eff. 1-1-84; emerg. r. (10) (j), eff. 1-1-84; r. (10) (j), Register, May, 1984, No. 341, eff. 6-1-84; am. (10) (g), Register, December, 1984, No. 348, eff. 1-1-85; am. (3) (b) and (10) (f) 4., Register, December, 1985, No. 360, eff. 1-1-86; emerg. am. (10) (g) 1., eff. 1-1-86; cr. (10) (j), Register, March, 1986, No. 363, eff. 4-1-86; am. (10) (g) 1., Register, May, 1986, No. 365, eff. 6-1-86; am. (1) (a) and (9) (c), cr. (10) (k), Register, December, 1986, No. 372, eff. 1-1-87; am. (10) (j), Register, December, 1987, No. 384, eff. 1-1-88; r and recr. (4) (c), am. (10) (j), cr. (10) (l) and (m), Register, December, 1988, No. 396, eff. 1-1-89; am. (4) (c) (intro.), 1. and 2. intro., (5) (c) and (d) 3., Register, December, 1989, No. 408, eff. 1-1-90; r. (6), renum. (4) (d), (7) to (10) to be (4) (e) and (6) to (9) and am. (9) (f) 6, cr. (4) (d), Register, December, 1991, No. 432, eff. 1-1-92; reprinted to correct error in (4) (d) 4., Register, February, 1992, No. 434; am. (4) (d) 4. and (6), renum. (4) (e) to be (4) (f), cr. (4) (e), Register, December, 1992, No. 444, eff. 1-1-93; cr. (4) (g), Register, May, 1994, No. 461, eff. 6-1-94; r. (4) (d) 1 to 5., renum. (4) (d) (intro.) to be (4) (d) and am., am. (5) (a), (9) (c), (f) 2., cr. (9) (n), Register, December, 1994, No. 468, eff. 1-1-95; am. (1) (a) (4) (c) 2., (5) (d) 1., cr. (4) (h), (9) (n), r and recr. (5) (d) 2., r. (5) (d) 3., (9) (i), renum. (9) (j) to (n) to be (9) (i) to (m) and am. (9) (h) and (L), Register, December, 1995, No. 480, eff. 1-1-96; am. (5) (c), renum. (9) (f) (intro.), (m) and (n) to be (9) (f), (L) and (m) and am. (9) (f), r. (9) (f) 1 to 8., (L), Register, December, 1996, No. 492, eff. 1-1-97; corrections in (3), (8) (c) and (g) made under s. 13.93 (2m) (b) 7., Stats., Register, March, 1997, No. 495; am. (9) (a) and (L), Register, December, 1998, No. 516, eff. 1-1-99

**DFI-Sec 2.027 Exemption for solicitations of interest prior to registration or exemption.** (1) A transaction exemption is available under s. 551.23 (18), Stats., for an offer, but not a sale, of a security made by or on behalf of an issuer pursuant to delivery of a written document or use of a newspaper publication or scripted media broadcast containing the information prescribed in the form in s. DFI-Sec 9.01 (1) (c), for the sole purpose of soliciting an indication of interest from prospective purchasers in receiving a prospectus, private placement memorandum or equivalent disclosure document for the security, if the following conditions are satisfied, except to the extent that sub. (2) is applicable.

(a) The issuer intends that sales of the security be either:

1. Registered under ch. 551, Stats.; or
2. Exempt from registration under an available exemption in any subsection of s. 551.23, Stats.

(b) Not later than the date of the initial solicitation of interest made under this section, the offeror shall file with the division a completed solicitation of interest form as prescribed in s. DFI-Sec 9.01 (1) (c), together with any other materials to be used to conduct solicitations of interest, including, but not limited to, the script of any broadcast to be made and a copy of any notice to be published. Material amendments to the solicitation of interest form or to any related materials used to conduct solicitations shall be filed with the division not later than the date of their first use. Any written document under this subsection may include a coupon, returnable to the issuer indicating interest in a potential offering, revealing the name, address and telephone number of the prospective purchaser.

(c) The text of any published notice or script for broadcast, and any printed material delivered in any solicitation of interest under this section, shall begin with the disclosures and information required in, and in the format of, the solicitation of interest form specified in s. DFI-Sec 9.01 (1) (c).

(d) The offeror does not know, and in the exercise of reasonable care could not know, that any of the issuer's officers, directors, general partners, controlling persons or affiliates thereof are or would be disqualified from use of the registration exemption in s. 551.23 (19), Stats., as a result of any of the causes specified in s. 551.23 (19) (c) 1. a. to d., Stats., except for any person or persons

subject to a disqualification who meets the conditions for waiver in s. 551.23 (19) (c) 2. a., Stats.

(e) Solicitations of interest pursuant to this section shall not be made after the filing of either a registration statement under ch. 551, Stats., the filing of materials required for a claim of registration exemption under s. 551.23, Stats., or use of any available self-executing exemption under s. 551.23, Stats.

(f) Sales of the securities that are the subject of solicitations of interest under this section shall not be made until 20 calendar days after the last delivery of a solicitation of interest document or a radio or television broadcast or other media publication.

(2) (a) A failure to comply with any of the conditions in sub. (1) will not result in the loss of the securities registration exemption under this section for any offer to a particular individual or entity if the offeror demonstrates each of the following are met:

1. The failure to comply did not pertain to a condition directly intended to protect that particular individual or entity; and
2. The failure to comply was insignificant with respect to the offering as a whole; and
3. A good faith and reasonable attempt was made to comply with the conditions in sub. (1) (a) to (f).

(b) Where an exemption is established only through reliance upon this subsection, the failure to comply with the conditions in sub. (1) (a) to (f) shall constitute a basis for action that may be taken by the division under s. 551.57, Stats., and shall constitute a basis for action that may be taken by the division under s. 551.24, Stats., to deny or revoke the exemption as to a specific security or transaction.

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96; renum. from SEC 2.028 and am. (1) (c), Register, December, 1996, No. 492, eff. 1-1-97.

**DFI-Sec 2.028 Wisconsin issuer registration exemption by filing.** If all of the following conditions are met, other than any condition or conditions waived by the division upon a showing of good cause, a transaction registration exemption is available under s. 551.23 (18), Stats., for any offer or sale for cash of the securities of an issuer having, both before and upon completion of the offering, its principal office and a majority of the full-time employees located in this state:

(1) The securities are sold to not more than 100 persons in this state, excluding:

- (a) Persons described in s. 551.23 (8), Stats.;
- (b) Members of the immediate family of an executive officer or director of the issuer who have the same permanent residence as the officer or director.

(2) No commission or other remuneration is paid or given, directly or indirectly, for soliciting or selling to any person in this state in reliance on the exemption in this section except to broker-dealers and agents licensed in this state.

(3) Neither the issuer, its officers, directors, general partners, controlling persons or affiliates, nor any broker-dealer or agent offering or selling the securities is or would be disqualified under s. 551.23 (19) (c), Stats.

(4) The aggregate offering price of the securities sold in the offering to persons in Wisconsin pursuant to this exemption does not exceed \$1,000,000, provided that the issuer has not made other offerings in Wisconsin pursuant to this exemption that would meet the criteria for being integrated with the offering under Rule 502 (a) of Regulation D under the securities act of 1933.

(5) The duration of the offering period shall not exceed one year, although the issuer may extend the offering for up to an additional one year by filing amended and updated disclosure materials, together with any advertising, with the division in conformance with the requirements of sub. (8). If the disclosure materials provide that a minimum dollar amount of offering subscriptions must be received before the issuer may utilize any of the proceeds, all subscriptions shall be held by a financial institution

under an impounding agreement until the required minimum subscription level is reached.

(6) The issuer reasonably believes that all sales made pursuant to this exemption are suitable for the purchaser and that the purchaser either alone or with the purchaser's representative has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of the investment.

(7) An offering document is delivered to each purchaser prior to the sale of the securities that meets one of the following requirements:

(a) For offerings by a corporate issuer, an offering document that complies with the North American Securities Administrators Association, Inc. Form U-7 Small Corporate Offering Registration and Prospectus Disclosure Form, except that the financial statements may be either audited or reviewed; or

(b) For offerings by any type of issuer, an offering document that complies with the disclosure requirements of rule 502 (b) (2) of Regulation D under the securities act of 1933.

(8) The issuer or applicant files with the division:

(a) The offering document to be used in connection with the offer and sale of the securities, not later than the date of the first use of the document in this state, together with a fee of \$200; and

(b) A letter specifying how the requirements for use of this exemption contained in the introduction and in subs. (1) to (7) are met or will be met; and

(c) A copy of all advertising, other than the offering document and except for solicitation of interest materials previously filed pursuant to s. DFI-Sec 2.027, to be used in connection with the offer and sale of the securities, not later than the date of its first use in this state, and a copy of all material amendments to the offering document, not later than the date of first use of each material amendment in this state.

**History:** Cr. Register, March, 1986, No. 363, eff. 4-1-86; r. and recr. Register, December, 1990, No. 420, eff. 1-1-91; am. (3) and (4), Register, December, 1991, No. 432, eff. 1-1-92; am. (intro.), renum. (6) to (8) to be (7) to (9), cr. (6), Register, December, 1994, No. 468, eff. 1-1-95; am. (1) (intro.), (4), r. (5), renum. (6) to (9) to be (5) to (8) and am. (7) (a), (8) (b) is renumbered to (8) (c) and amended, cr. (8) (b), Register, December, 1995, No. 480, eff. 1-1-96; correction in (5) made under s. 13.93 (2m) (b) 7, Stats., Register, November, 1996, No. 491; renum. from SEC 2.027, r. (1) (b), renum. (1) (c) to be (1) (b), Register, December, 1996, No. 492, eff. 1-1-97.

**DFI-Sec 2.03 Exemption proceedings.** (1) If a notice is required to be filed in order to seek to claim registration exemption status pursuant to s. 551.22 or 551.23, Stats., the notice shall consist of a copy of any prospectus, circular or other material to be delivered to offerees, the fee prescribed by s. DFI-Sec 7.01 (2), and a cover letter describing how the offering will meet all the requirements for use of the exemption sought to be utilized.

(2) If any information is reasonably required by the division prior to the effective date of an exemption, in connection with the examination of any notice filed pursuant to s. 551.22 or 551.23, Stats., the notice is not deemed filed until the information so required is filed with the division.

(3) An order of the division disallowing an exemption with respect to a specified security or transaction pursuant to s. 551.22 or 551.23, Stats., has the same effect as an order denying or revoking an exemption pursuant to s. 551.24, Stats.

**History:** Cr. Register, December, 1969, No. 168, eff. 1-1-70; r. and recr. Register, August, 1972, No. 200, eff. 9-1-72; am. (1), Register, December, 1977, No. 264, eff. 1-1-78; r. and recr. (1), Register, December, 1981, No. 312, eff. 1-1-82; am. (1), Register, December, 1982, No. 324, eff. 1-1-83; am. (1), Register, December, 1991, No. 432, eff. 1-1-92.

**DFI-Sec 2.04 Federal covered security notice filings.** (1) (a) With respect to a federal covered security referred to in s. 551.29 (1) (a), Stats., unless the security is registered or exempt from registration under ss. 551.22 or 551.23, Stats., until October 11, 1999, the issuer or a person acting on behalf of the

issuer shall file with the division not later than the initial offer of the security in this state, a consent to service of process signed by the issuer and the notice filing fee prescribed under s. 551.52 (1) (a), Stats. If a completed Form NF as prescribed in DFI-Sec 9.01 (1) (d) is included with the consent to service of process and the notice filing fee, the issuer need not also include with the filing copies of any documents that are part of the registration statement filed under the securities act of 1933, although the division may at a later time require the filing of a copy of any document that is part of the registration statement filed under the securities act of 1933.

(b) After the initial offer in this state of a federal covered security referred to in s. 551.29 (1) (a), Stats., if the issuer files an amendment to its registration statement with the U.S. securities and exchange commission under the securities act of 1933 that relates either to a name change of the issuer, or to a change in the designation of the federal covered security, the issuer or a person acting on behalf of the issuer shall file with the division concurrent with the federal filing, a fee of \$200, which shall be accompanied by a copy of each amendment-related document filed with the U.S. securities and exchange commission unless the issuer files with the division a completed Form NF as prescribed in DFI-Sec 9.01 (1) (d). The division may at a later time require the filing of a copy of any document relating to the amendment filed under the securities act of 1933.

(2) With respect to a federal covered security referred to in s. 551.29 (2), Stats., unless the security is registered or exempt from registration under ss. 551.22 or 551.23, Stats., the issuer or a person acting on behalf of the issuer shall file with the division not later than 15 days after the first sale of the security in this state, a notice consisting of a completed Form D as prescribed by rule 503 of regulation D under the securities act of 1933, signed by the issuer, together with a \$200 fee.

(3) With respect to a federal covered security referred to in s. 551.29 (3), Stats., that is a revenue obligation issued by a non-Wisconsin governmental issuer which, prior to the National Securities Market Improvement Act of 1996 would have required a filing with the division under s. 551.22 (1) (b), Stats., unless the security is registered or exempt from registration under ss. 551.22 or 551.23, Stats., the issuer or a person acting on behalf of the issuer shall file with the division not later than the earlier of the first offer or sale in this state, a notice consisting of a \$200 fee and which, in order to provide information about the offering for the division's database, may at the option of the issuer include a letter identifying the securities being offered, the aggregate dollar amount of the offering, the name of the governmental issuer, and the name and address of the non-governmental industrial or commercial enterprise providing payment of the principal and interest on the security.

(4) With respect to a federal covered security referred to in s. 551.29 (3), Stats., that is being exchanged by the issuer with its existing securityholders and which, prior to the National Securities Market Improvement Act of 1996 would have required a filing with the division under s. 551.23 (12), Stats., unless the security is registered or exempt from registration under ss. 551.22 or 551.23, Stats., the issuer or a person acting on behalf of the issuer shall file with the division not later than the earlier of the first offer or sale in this state, a notice consisting of a \$200 fee and a copy of each document relating to the offering filed under the securities act of 1933. If the issuer is not required to file documents relating to the offering under the securities act of 1933, in order to provide information about the offering and the issuer for inclusion in the division's database, the issuer at its option may include with the notice a letter identifying the issuer and its address, the securities being offered and the aggregate dollar amount of the offering.

**History:** Cr. Register, December, 1998, No. 516, eff. 1-1-99.