

**The Florida Senate**  
**BILL ANALYSIS AND FISCAL IMPACT STATEMENT**

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

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Prepared By: The Professional Staff of the Committee on Fiscal Policy

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BILL: CS/SB 532

INTRODUCER: Banking and Insurance Committee and Senator Brodeur

SUBJECT: Securities

DATE: February 13, 2024

REVISED: \_\_\_\_\_

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	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Johnson</u>	<u>Knudson</u>	<u>BI</u>	<u>Fav/CS</u>
2.	<u>Sanders</u>	<u>Betta</u>	<u>AEG</u>	<u>Favorable</u>
3.	<u>Johnson</u>	<u>Yeatman</u>	<u>FP</u>	<u>Pre-meeting</u>

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**Please see Section IX. for Additional Information:**

COMMITTEE SUBSTITUTE - Substantial Changes

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**I. Summary:**

CS/SB 532 substantially revises ch. 517, F.S., the “Securities and Investor Protection Act” (Act). The Office of Financial Regulation (OFR) is responsible for administering the provisions of this chapter. The bill is based on the recommendations contained in the report issued by the Chapter 517 Task Force of the Business Law Section of The Florida Bar in coordination with the OFR.<sup>1</sup> The impetus for the task force is to increase the ability of small and developing Florida businesses to raise capital, while at the same time assuring and improving investor protections and enforcement measures to guard against abuse.<sup>2</sup> Since ch. 517, F.S., has not been substantially updated in many years, the bill also incorporates many small business financing provisions consistent with recently adopted federal rules or legislation adopted in other states. The bill includes the following changes:

**Investor Protections**

- Revises eligibility and recovery provisions relating to the Securities Guaranty Fund (Fund), which was created to provide relief to victims of securities violations under ch. 517, F.S., who are entitled to monetary damages or restitution but cannot recover the full amount of such damages or restitution from the wrongdoer;

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<sup>1</sup> Report of the Chapter 517 Task Force of the Business Law Section of The Florida Bar, Recommendations and Analysis of Proposed Amendments to the Florida Securities and Investor Protection Act (Nov. 2023). The report is on file with the Florida Senate Committee on Banking and Insurance staff.

<sup>2</sup> *Id.*

- The bill removes a requirement that an investor who has received a final judgement that is unsatisfied must make searches and inquires to ascertain the assets of the judgment debtor, which may result in delays. Further, the bill removes a two-year waiting period for payment;
  - The bill increases the amount an eligible person may recover from the Fund from \$10,000 to \$15,000, adds an exception allowing recovery of up to \$25,000 if the person is a specified vulnerable or older adult, and increasing the aggregate limit on claims from \$100,000 to \$250,000;
- Eliminates a registration exemption for short-term notes of \$25,000 or more, which have a maturity date of nine months or less. This type of offering is often the subject of abusive efforts by persons trying to evade registration requirements through the issuance of short-term notes to non-accredited investors. There is no comparable provision in the Uniform Securities Act and currently such notes cannot be sold under federal exemptions that preempt state registration;
- Excludes certain industrial revenue bonds and commercial development bonds issued by the United States or a state or local government from a registration exemption unless the bonds are guaranteed by a publicly traded entity. This exclusion is based on the increased risk to investors under such bonds, which depend upon revenue streams for their funding; and
- Requires a person who has six or more clients, rather than 15 or more clients, to register with the OFR as an investment adviser.

### **Access to Capital Formation and Investment Options**

- Revises the regulatory provisions relating to the intrastate crowdfunding exemption. These changes include increasing the maximum offering limit from one million to five million dollars, which is consistent with the federal crowdfunding rules and reducing the technical and regulatory requirements for issuers;
- Creates the “Florida Invest Local Exemption,” a micro-offering exemption that allows an issuer to offer up to \$500,000 in securities to residents of Florida in reliance upon the exemption. An issuer may not accept more than \$10,000 from any single purchaser, unless the purchaser is an accredited investor or other specified group, for which there are no sale limits. The issuer may engage in general advertising and general solicitation of the offering;
- Revises the limited offering exemption to require a disclosure regarding a purchaser’s right of void the transaction within three days from the date of purchase, and to allow additional eligible purchasers that would be excluded for purposes of the 35 purchaser limit, consistent with the Securities and Exchange Commission rules; and
- Creates an exemption for a nonissuer transaction with a federal covered adviser managing investments in excess of \$100 million, which is consistent with the provisions of the Uniform Securities Act.

### **Modernization of Chapter 517, F.S.**

- Adopts provisions consistent with federal rules that allow issuers to have greater access to potential investors through “demo-day” presentations and the pre-offering “testing the waters” solicitations and communications, which allows an issuer to determine whether there is any interest in a contemplated offering of exempt securities prior to incurring the expense of preparing and conducting an offering;

- Eliminates the requirement that issuers of simplified securities offerings that use the Small Company Offering Registration (SCOR) must submit annual financial reports for five years;
- Adopts provisions consistent with the integration of offering federal rule that provides offers and sales of securities will not be integrated if, based on the particular facts and circumstances, the issuer can establish each offering either complies with the registration requirements of the Securities Act of 1933, or that an exemption from registration is available for the particular offering;
- Adopts an exemption for accredited investors, which is consistent with the North American Securities Administrators Association accredited investor exemption model. The provision exempts offers and sales from registration if the offers and sales are made only to persons in Florida who are, or the issuer reasonably believes are, accredited investors. This exemption is an important option for small businesses attempting to raise capital; and
- Clarifies, consolidates, and reorganizes provisions within ch. 517, F.S., and adopts provisions consistent with the Uniform Securities Act.

### **State Enforcement Authority**

- Authorizes the Attorney General to double the amount of fines from \$10,000 to \$20,000 in civil and administrative actions for securities violations targeting senior citizens, age 65 or older, and vulnerable adults;
- Increases the maximum civil and administrative penalties that can be assessed in an action by the Attorney General pursuant to s. 517.191, F.S., from \$10,000 to \$20,000;
- Establishes joint and several liability for any control person who is found to have violated any provision of the Act;
- Provides a person who knowingly and recklessly provides substantial assistance to another person in violation of a provision of the Act is deemed to violate the provision to the same extent as the person to whom such assistance was provided;
- Allows the OFR to issue and serve upon a person a cease and desist order if the OFR has reason to believe the person violates any provision of the Act, as well as an emergency cease and desist order under certain circumstances; and
- Grants the OFR the authority to impose and collect an administrative fine against any person found to have violated any provision of the Act, which must also be deposited into the Anti-Fraud Trust Fund.

The bill has an indeterminate impact on state revenues and expenditures. *See* Section V. Fiscal Impact Statement below.

## **II. Present Situation:**

### **Federal Regulation of Securities**

#### ***Securities Act of 1933***

Following the stock market crash of 1929, the Securities Act of 1933<sup>3</sup> (Act of 1933) was enacted to regulate the offers and sales of securities. The Act of 1933 requires every offer and sale of securities be registered with the Securities and Exchange Commission (SEC), unless an

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<sup>3</sup> Public Law 73-22, as amended through P.L. 117-268, enacted December 23, 2022.

exemption from registration is available. The Act of 1933 requires issuers to disclose financial and other significant information regarding securities offered for public sale and prohibits deceit, misrepresentations, and other kinds of fraud in the sale of securities. The Act of 1933 requires issuers to disclose information deemed relevant to investors as part of the mandatory SEC registration of the securities that those companies offer for sale to the public.<sup>4</sup>

Registered securities offerings, often called public offerings, are available to all types of investors and have more rigorous disclosure requirements. Initial public offerings (IPOs) provide an initial pathway for companies to raise unlimited capital from the general public through a registered offering. After its IPO, the company will be a public company with ongoing public reporting requirements.<sup>5</sup>

By contrast, securities offerings that are exempt from SEC registration are referred to as private offerings and are mainly available to more sophisticated investors. The SEC exempts certain small offerings from registration requirements to foster capital formation by lowering the cost of offering securities to the public. Examples of exempt offerings<sup>6</sup> include:

- Rule 506(b) Private Placement Offerings allow companies to raise unlimited capital from investors with whom the company has a relationship and who meet certain wealth thresholds or have certain professional credentials;<sup>7</sup>
- Rule 506(c) of Regulation D. General Solicitation Offerings allow companies to raise unlimited capital by broadly soliciting investors who meet certain wealth thresholds or have certain professional credentials;<sup>8</sup>
- Rule 504 of Regulation D, Limited Offerings allow companies to raise up to \$10 million in a 12-month period, in many cases from investors with whom the company has a relationship;<sup>9</sup>
- Regulation Crowdfunding offerings allow eligible companies to raise up to five million dollars in investment capital in a 12-month period from investors via an online portal;<sup>10</sup>
- Intrastate offerings<sup>11</sup> allow companies to raise capital within a single state according to state law. Many states limit the offering to between one million and five million dollars in a 12-month period; and<sup>12</sup>
- Regulation A offerings allow eligible companies to raise up to \$20 million in a 12-month period in a Tier I offering and up to \$75 million through a similar, but less extensive registered offering.<sup>13</sup>

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<sup>4</sup> *Id.*

<sup>5</sup> U.S. Securities and Exchange Commission (SEC), *What does it mean to be a public company?* <https://www.sec.gov/education/capitalraising/building-blocks/what-does-it-mean-be-a-public-company> (last visited Jan. 28, 2024).

<sup>6</sup> SEC, *The Laws That Govern the Securities Industry*, <https://www.sec.gov/about/about-securities-laws> (last visited Jan. 28, 2024). Security offerings of municipal, state, and the federal government are exempt from registration.

<sup>7</sup> 17 C.F.R. s. 230.506(b).

<sup>8</sup> 17 C.F.R. s. 230.506(c).

<sup>9</sup> 17 C.F.R. s. 230.504.

<sup>10</sup> 17 C.F.R. s. 227.100. Florida's intrastate crowdfunding law, s. 517.0611, F.S., has not been updated since it was created to reflect to reflect the increase in the maximum offering from one million to five million dollars pursuant to federal rules.

<sup>11</sup> Section (3)(a)(11) of the Securities Act of 1933, 17 C.F.R. s. 230.147 and 17 C.F.R. s. 230.147A

<sup>12</sup> SEC, 17 CFR Parts 227, 229, 230, 239, 249, 270 and 274; RIN-3235-AM27, Final rule: Facilitating Capital Formation and Expanding Investment Opportunities by Improving Access to Capital in Private Markets, <https://www.sec.gov/files/rules/final/2020/33-10884.pdf> (last visited Jan. 28, 2024).

<sup>13</sup> 17 C.F.R. s. 230.251.

### ***Securities and Exchange Act of 1934***

The Securities and Exchange Act of 1934 created the SEC as an independent agency to enforce federal securities laws.<sup>14</sup> The SEC oversees federal securities laws<sup>15</sup> broadly aimed at protecting investors; maintaining fair, orderly, and efficient markets; and facilitating capital formation.<sup>16</sup> The SEC has broad regulatory authority over significant parts of the securities industry, including stock exchanges, mutual funds, investment advisers, brokerage firms, as well as securities self-regulatory organizations (SROs), such as the Financial Industry Regulatory Authority, Inc. (FINRA).<sup>17</sup>

### ***Federal Crowdfunding Regulations***

The Jumpstart Our Business Startups Act (the “JOBS Act”),<sup>18</sup> establishes a regulatory structure for startups and small businesses to raise capital through exempt crowdfunded securities offerings using a funding portal.<sup>19</sup> Title III of the JOBS Act created a new registration exemption from federal securities law to permit the issuance, offer, and sale of up to one million dollars of crowdfunding securities per year initially, subject to specified requirements for issuers and intermediaries, and is not limited to accredited investors. However, national or interstate equity crowdfunding under Title III was not permitted until the SEC implemented Title III by final rule, which was not completed until November 16, 2015.<sup>20</sup> In response to the delay, a number of states, including Florida, enacted intrastate crowdfunding exemptions, which combine some elements of Title III of JOBS with s. 3(a)(11) of the Securities Act of 1933.

The final rule, Regulation Crowdfunding,<sup>21</sup> implements the interstate crowdfunding provisions of the JOBS Act. The regulations permit individuals to invest in securities-based crowdfunding transactions subject to certain thresholds, limits the amount of money an issuer can raise under the crowdfunding exemption at five million dollars, requires issuers to disclose certain information about their offers, and creates a regulatory framework for the intermediaries that facilitate the crowdfunding transactions. Transactions must be conducted through an intermediary registered as either a broker-dealer or a “funding portal.”<sup>22</sup> The rules require intermediaries to:

- Provide investors with educational materials;
- Take measures to reduce the risk of fraud;
- Make available information about the issuer and the offering;
- Provide communication channels to permit discussions about offerings on the platform; and
- Facilitate the offer and sale of crowdfunded securities.<sup>23</sup>

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<sup>14</sup> Public Law 73-291, as amended through P.L. 117-328, enacted December 29, 2022.

<sup>15</sup> Section 15, Securities and Exchange Act of 1934.

<sup>16</sup> Securities and Exchange Commission, *Mission*, <https://www.sec.gov/about/mission> (last visited Jan. 28, 2024).

<sup>17</sup> National securities exchanges (e.g., the New York Stock Exchange) and clearing and settlement systems may register as SROs with the SEC or CFTC, making them subject to SEC or CFTC oversight. See <https://www.sec.gov/rules/sro> for a list of self-regulatory organizations (SROs) registered with the SEC (last visited Jan. 28, 2024).

<sup>18</sup> Pub. L. 112-106, *126 Stat.* 306 (2012).

<sup>19</sup> Title III of the JOBS Act (“Title III”) added new Securities Act Section 4(a)(6), which provides an exemption from the registration requirements of Securities Act Section 5. 15 U.S.C. 77e.

<sup>20</sup> 80 FR 71387.

<sup>21</sup> 17 CFR Part 200.

<sup>22</sup> 17 CFR Part 227.

<sup>23</sup> *Id.*

In addition, Regulation Crowdfunding limits the amount a non-accredited, individual investor is allowed to invest in Regulation Crowdfunding offerings over the course of a 12-month period contingent upon the investor's net worth and annual income.<sup>24</sup> There are no investment limitation for accredited investors.<sup>25</sup>

### Florida Regulation of Securities

The federal securities acts expressly allow for concurrent state regulation under blue sky laws,<sup>26</sup> which are designed to protect investors against fraudulent sales practices and activities. Most state laws typically require companies making offerings of securities to register their offerings before they can be sold in a particular state, unless a specific state exemption is available. The laws also license brokerage firms, their brokers, and investment adviser representatives.<sup>27</sup>

The Financial Services Commission (commission) is composed of the Governor, the Attorney General, the Chief Financial Officer, and the Commissioner of Agriculture.<sup>28</sup> The commission members serve as agency head for purposes of rulemaking.<sup>29</sup> The Office of Financial Regulation (OFR) and the Office of Insurance Regulation (OIR) are units under the commission, and each office is headed by a commissioner appointed by the commission.<sup>30</sup>

The scope of the OFR's jurisdiction includes the regulation and registration of the offer and sale of securities in, to, or from Florida by firms, branch offices, and individuals associated with these firms in accordance with the ch. 517, F.S.<sup>31</sup> The Division of Securities (division) within the OFR is responsible for administering the Securities and Investor Protection Act (SaIP Act). The SaIP Act prohibits dealers, associated persons, and issuers from offering or selling securities in this state unless registered with the OFR or specifically exempted.<sup>32</sup> Additionally, all securities in Florida must be registered with the OFR unless they meet one of the exemptions in ss. 517.051 or 517.061, F.S., or are federally covered (i.e., under the exclusive jurisdiction of the SEC). As of December 30, 2023, the division had total registrants in the following categories:

- Dealers: 2,393
- Investment Advisers: 8,363
- Branches: 11,701; and

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<sup>24</sup> See 17 C.F.R. s. 227.100(a)(2).

<sup>25</sup> Accredited investors may, under SEC rules, participate in investment opportunities that are generally not available to non-accredited investors, including certain investments in private companies and offerings by certain hedge funds, private equity funds, and venture capital funds. Further, the rules allow investors with reliable alternative indicators of financial sophistication to participate in such investment opportunities, while maintaining the safeguards necessary for investor protection. The definition of the term, "accredited investor," is found at 17 C.F.R. s. 230.501.

<sup>26</sup> The term "blue sky" derives from the characterization of baseless and broad speculative investment schemes, which such laws targeted. Cornell Law School, Blue Sky Laws [https://www.law.cornell.edu/wex/blue\\_sky\\_law#:~:text=In%20the%20early%201900s%2C%20decades,schemes%20which%20such%20laws%20targeted](https://www.law.cornell.edu/wex/blue_sky_law#:~:text=In%20the%20early%201900s%2C%20decades,schemes%20which%20such%20laws%20targeted) (last visited Jan. 28, 2024).

<sup>27</sup> SEC, *Blue Sky Laws*, <http://www.sec.gov/answers/bluesky.htm> (last visited Jan. 28, 2024).

<sup>28</sup> Section 20.121(3), F.S.

<sup>29</sup> Section 20.121(3)(a), F.S.

<sup>30</sup> Section 20.121(3)(a)2., F.S.

<sup>31</sup> Pursuant to s. 20.121(3), F.S. The jurisdiction of the OFR also includes state-chartered financial institutions and finance companies.

<sup>32</sup> Section 517.12, F.S.

- Associated Persons: 378,876<sup>33</sup>

### ***Intrastate Crowdfunding***

As noted earlier, in response to the delay in the adoption of federal rules implementing the JOBS Act, a number of states, including Florida, enacted intrastate crowdfunding exemption, which exempts issuers from federal registration if the issuer, purchaser, and securities offering are all contained within the same state, and meet other requirements.

During the 2015 Session, the Florida Legislature enacted an intrastate crowdfunding exemption.<sup>34</sup> The issuer, intermediary, investor, and transaction must comply with the federal intrastate exemption requirements. The law<sup>35</sup> exempts an issuer and the securities offering of up to one million dollars for a 12-month period, requires registration for the intermediary; and mirrors the federal investment limitations for investors at the time. The law requires issuer notice-filings and intermediary registrations with the OFR, initial and periodic disclosures to investors, an escrow agreement for investor funds, a right of rescission, and financial reporting to investors and to the OFR.

### **Chapter 517 Task Force of The Florida Bar Business Law Section (Task Force)**

In 2022, the Executive Council of the Business Law Section of The Florida Bar created a Task Force to consider amendments to Chapter 517, F.S. In late 2023, the Task Force released its report in coordination with the OFR, which included recommendations and analysis of proposed changes.<sup>36</sup> The impetus for the reform is to improve the ability of small and developing businesses in Florida to raise capital, while at the same time both assuring and improving investor protection and enforcement measures to guard against abuse. Florida's securities statute has not been materially amended for many years. As a result, a number of measures taken both federally and by many states regarding small business financing have not been incorporated into Florida law.<sup>37</sup> Substantive, as well as technical and clarifying changes were recommended by the Task Force.

### **Uniform Law Commission (ULC)**

The Uniform Law Commission (ULC), also known as the National Conference of Commissioners on Uniform State Laws), established in 1892, provides states with non-partisan uniform model acts. In 2002, the ULC updated the Uniform Securities Act, which provides basic

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<sup>33</sup> Email from Ash Mason, Legislative Affairs Director, Office of Financial Regulation, to Michelle Sanders, Legislative Analyst, Senate Appropriations Committee on Agriculture, Environment and General Government (Jan. 30, 2024) (on file with Senate Appropriations Committee on Agriculture, Environment and General Government). Note: The number of securities registrations were updated from the September 30, 2023 information provided in OFR's bill analysis. OFR noted the renewal period ending December 31 is lower due to an influx of applications at the beginning of the calendar year as firms do not want to pay an application and renewal fee in the same month at the end of the year.

<sup>34</sup> Ch. 2015, Laws of Fla.

<sup>35</sup> Section 517.0611, F.S.

<sup>36</sup> Report of the Chapter 517 Task Force of the Business Law Section of The Florida Bar, Recommendations and Analysis of Proposed Amendments to the Florida Securities and Investor Protection Act (Nov. 2023). On file with Florida Senate Committee on Banking and Insurance Staff.

<sup>37</sup> *Id.*

investor protection from securities fraud, complementing the federal Securities and Exchange Act, and only applies to securities not regulated by the SEC.<sup>38</sup>

### III. Effect of Proposed Changes:

**Section 1** amends s. 517.021, F.S., to create the following definitions:

- “Angel investor group” means a group of accredited investors who hold regular meetings and have defined processes and procedures for making investment decisions, individually or among the membership of the group, and who are not associated persons, affiliates, or agents of a dealer or investment adviser.
- “Business entity” means any corporation, partnership, limited partnership, limited liability company, proprietorship, firm, enterprise, franchise, association, self-employed individual, or trust, which may or may not be fictitiously named, doing business in this state.

The definition of “boiler room,” is revised to reflect technological innovations in communications. The definition of the term, “boiler room” is amended to mean an enterprise in which two or more persons in a common scheme or enterprise solicit potential investors through telephone calls, e-mail, text messages, social media, chat rooms, or other electronic means.

The section also revises the definition of investment adviser for purposes of registration requirements. An investment advisor, is exempt from registration requirements if the person, during the preceding 12 months, has fewer than six clients instead of no more than 15 clients who are residents of this state. The term, “client,” has the same meaning as provided in 17 C.F.R. s. 275.222-2. According to the Chapter 517 Task Force of the Business Law Section of the Florida Bar (Task Force) report, Florida is one of three states (including California and North Carolina) that have a 15 or less client exemption. Five states (Georgia, New Jersey, New York, Pennsylvania and Tennessee) have a no more than six client exemption, and all other states require registration if an adviser has a place of business in their state regardless of how many clients the adviser has.

An exemption from the investment advisor registration is also provided for specified governmental entities and others, which is consistent with an exemption provided in section 202(b) of the Investment Advisers Act of 1940. Registration requirements do not apply to the U.S. government, state governments and their political subdivisions, and their agencies or instrumentalities, including their officers, agents, or employees acting in their official capacities.

#### Exempt Securities

**Section 2** amends s. 517.051, F.S., which provides exemptions based on the nature of the securities. The exemption relating to United States, state and local government securities, is revised to exclude certain industrial revenue bonds and commercial development bonds. This change is made based on the increased risk to investors holding such bonds, which are reliant upon revenue streams for their support, unless the bonds are guaranteed by a publicly traded entity described in s. 18(b)(1) of the Securities Act of 1933.

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<sup>38</sup> Uniform Securities Act, [2002-Uniform-Securities-Act.pdf \(nasaa.org\)](https://www.nasaa.org/2002-Uniform-Securities-Act.pdf) (last visited Jan. 28, 2024).

The exemption related to a security issued by a depository institution, current subsection (3), is revised to incorporate provisions found in s. 201(3)(B) of the Uniform Securities Act to provide greater clarity and specificity. The section limits the list of financial institutions to the following:

- An international bank of which the United States is a member;
- A bank organized under the laws of the United States;
- A member bank of the Federal Reserve System; or
- A depository institution when a substantial portion of the business consists or will consist of receiving deposits or share accounts that are insured to the maximum amount authorized by statute by the federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund.

The current registration exemption provided in s. 517.051(8), F.S., for notes of at least \$25,000 that have a maturity period not exceeding nine months and are sold to non-accredited investors is eliminated. According to the Task Force, this exemption has been the subject of abusive efforts by persons attempting to evade registration requirements. There is no analogy to this exemption in the Uniform Securities Act.

Section 517.051, F.S., is amended to provide an exemption for all not-for-profit cooperatives. Currently, ss. 517.051(7) and 517.061, F.S., provide a registration exemption for agricultural and residential cooperatives, respectively. The residential cooperative exemption is currently a transaction exemption and is moved to new s. 517.051(8), F.S. Subsection (9) is created to provide a registration exemption for all other forms of not-for-profit cooperatives, which is consistent with the Uniform Securities Act. This provision exempts a member's or owner's interest in, or a retention certificate or like security given in lieu of a cash patronage dividend issued by, a not-for-profit membership entity operated either as a cooperative under the cooperative laws of a state or in accordance with the cooperative provisions of subchapter T of chapter 1 of subtitle A of the United States Internal Revenue Code, as amended, but not a member's or owner's interest, retention certificate, or like security sold or transferred to a person other than:

- A bona fide member of the not-for-profit membership entity; or
- A person who becomes a bona fide member of the not-for-profit membership entity at the time of or in connection with the sale or transfer.

Technical, clarifying changes are made to the section.

### **Exempt Securities Transactions**

**Sections 3** amends s. 517.061, F.S., to reorganize and amend the section by grouping similar types of transactions together. Except as otherwise provided in subsection (11), the exemptions from the registration requirements of s. 517.07, F.S., are self-executing and do not require any filing with the Office of Financial Regulation (OFR). However, such transactions are subject to the anti-fraud provisions of s. 517.301, F.S.

Section 517.061(1), F.S., relating to judicial approval of a securities transaction, is amended in paragraph (a) to expand the exemption to include sales effected through assignments for the benefit of creditors. New paragraph (b) exempts a transaction involving a security issued in exchange, except in a case under Title 11 of the United States Code, for one or more bona fide

outstanding securities, or property interests, or partly in such exchange and partly for cash, if the terms and conditions are approved by certain governmental entities after a hearing upon the fairness of such terms and conditions. The Task Force adopted the language of the federal analog, s. 3(a)(10) of the Securities Act of 1933.

The current exemption provided in subsection (3), relating to a stock dividend or equivalent equity distribution, is amended to prohibit the giving of value by stockholders or other equity holders for the dividend or equivalent equity distribution other than the surrender of a right to a cash or property dividend in the event that each stockholder or other equity holder may elect to take the dividend or equivalent equity distribution in cash, property, or stock. The subsection is modeled after the Uniform Securities Act.

The bill expands the current exemption in subsection (4), related to a transaction involving the distribution of securities among an issuer's own security holders, to include persons that at the date of the transaction are holders of options and all types of warrants. The provision is modeled after the Uniform Securities Act.

Subsection (8) expands the current exemption relating to employer-sponsored stock option plans to include any securities, plan interests, and guarantees issued under a compensatory benefit plan or compensation contract, and requires that the employee benefit plan be contained in a record established by the issuer, its parents, its majority-owned subsidiaries, or the majority-owned subsidiaries of the issuer's parent for the participation of their employees.

Subsection (9) revises a current exemption, relating to the offer or sale of securities to a financial institution, to eliminate the limitation that the offers or sales of securities may not be for the direct or indirect promotion of any scheme or enterprise with the intent of violating or evading ch. 517, F.S. A general provision addresses this issue in s. 517.0613, F.S. The subsection eliminates the requirement the Financial Services Commission (commission) define "institutional investor." The term, "qualified institutional buyers," is defined in s. 517.021, F.S.

The limited offering exemption in subsection (10)(a) is amended to remove the provision prohibiting the payment of a commission or compensation for the sale of the securities in certain circumstances under the exemption relating to the offer or sale, by or on behalf of an issuer, of its own securities, where there are no more than 35 purchasers since the statute already precludes compensation to nondealers. The three-day voidable provision has been revised to limit it to three days from the date of purchase. Newly created exemptions proposed in ss. 517.0611, F.S., and 517.0612, F.S., will allow general advertising and solicitation, subject to enforcement provisions for material misstatements or omissions. The section adds certain additional purchasers to the list of excluded purchasers for purposes of the 35 purchaser limit. The added provisions have been taken from the analogous U.S. Securities and Exchange Commission (SEC) Rule 501 exclusions for counting purchasers.

The limited offering exemption is the current statute's primary registration exemption for capital-raising purposes. It was modeled after the SEC Rule 505 exemption which no longer exists. The exemption is principally used by issuers that limit their offers and sales to Florida residents. It has no monetary limitation on the issuer or any investor but is limited to no more than 35 non-accredited investors. A principal problem with this exemption has been the prohibition against

any general advertising or solicitation, which substantially impairs the ability of smaller, developing companies to attract investors.

Subsection (11) substantially codifies the North American Securities Administrators Association<sup>39</sup> (NASAA) model accredited investor exemption. Sales of securities may only be made to persons who are, or the issuer reasonably believes are, accredited investors. The exemption is not available to an issuer that:

- Has an undefined business operation;
- Lacks a business plan;
- Lacks a stated investment goal for the funds being raised; or
- Plans to engage in a merger or acquisition with an unspecified business entity.

The model provides that a general announcement of the proposed offering, made by any means, may include only specified information. The issuer must file with the OFR a notice of transaction, a consent to service of process, and a copy of the general announcement within 15 days after the first sale in this state. The FSC may adopt by rule procedures for filing documents by electronic means. Dissemination of the general announcement of the proposed offering to persons who are not accredited investors does not disqualify the issuer from claiming the exemption under this rule.

Subsection (15) creates an exemption for non-issuer transactions with a federal covered adviser managing investments in excess of \$100 million acting in the exercise of discretionary authority in a signed record for the accounts of others. This exemption is modeled after the Uniform Securities Act.

Subsection (16) is amended to allow the FSC to recognize by rule clearinghouses able to clear option transactions for purposes of this subsection. The subsection is also amended to require that the underlying security is purchased or sold on a recognized security exchange registered under the Securities Exchange Act of 1934 and to eliminate the possibility that the underlying security instead be quoted on the National Association of Securities Dealers Automated Quotation System.

The exemption for nonissuer transactions of securities outstanding at least 90 days in subsection (18) is revised to change the conditions for eligibility. Current law requires all conditions for this exemption must be satisfied. The section is revised to retain the mandatory conditions of (a)-(c), along with either one of (d) and (e).

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<sup>39</sup> The North American Securities Administrators (NASAA) is a nonprofit association of securities regulators in the United States, Canada, and Mexico. *Welcome to NASAA*, <https://www.nasaa.org/about/> (last visited Jan. 28, 2024). NASAA, *Model Accredited Investor Exemption*, Adopted Apr. 27, 1997, available at <https://www.nasaa.org/wp-content/uploads/2011/07/24-Model-Accredited-Investor-Exemption.pdf> (last visited Jan. 28, 2024). In 1997, NASAA members voted to approve “Model Accredited Investor Exemption” (the AI Exemption). The AI exemption exempts the offer or sale of a security by an issuer from the security registration process in a transaction meeting certain requirements including that the sale of securities is limited to accredited investors and the issuer must not be subject to disqualification. The majority of states have adopted the AI exemption.

Subsection (20) creates an exemption for buying and selling of securities of foreign companies through foreign brokers. Non-issuer transactions in an outstanding security by or through a dealer registered or exempt from registration are exempt if:

- The issuer is a reporting issuer in Canada or in a foreign jurisdiction designated by Commission rule and the issuer has been subject to continuous reporting requirements for not less than 180 days before the transaction; and
- The security is listed on The Toronto Stock Exchange, Inc. or on a foreign jurisdiction's securities exchange that has been designated by FSC rule, or is a security of the same issuer that is of senior or substantially equal rank to the listed security or is a warrant or right to purchase or subscribe to any of the foregoing.

The OFR may revoke any designation of a securities exchange if the OFR finds that revocation is necessary or appropriate in the public interest and for the protection of investors.

### **Florida Limited Offering Exemption**

**Section 4** amends s. 517.0611, F.S., the "Intrastate Crowdfunding Exemption." The section is substantially amended and renamed the "Florida Limited Offering Exemption" in subsection (1).

Subsection (2) is amended to provide the registration requirements of s. 517.07, F.S., do not apply to transactions conducted in accordance with this section; however, such transactions are subject to the anti-fraud provisions of s. 517.301, F.S. Currently, the section specifies an offer or sale of a security conducted in accordance with this section is an exempt transaction under s. 517.061, F.S., and the exemption may not be used in conjunction with any other exemption under ss. 517.051 or 517.061, F.S.

Subsection (3) requires the offer or sale of securities under this section be conducted in accordance with the requirements of the federal exemption for intrastate offerings in s. 3(a)(11) of the Securities Act of 1933, 15 U.S.C. s. 77c(a)(11), 17 CFR s. 230.147 or 17 CFR 230.147A, which is being added. In 2016, the SEC adopted Rule 147A, a new intrastate offering exemption, which is substantially identical to Rule 147 except Rule 147A:

- Allows offers to be accessible to out-of-state residents, so long as sales are only made to in-state residents;
- Permits a company to be incorporated or organized out-of-state, so long as the company has its "principal place of business" in-state and satisfies at least one "doing business" requirement that demonstrates the in-state nature of the company's business; and
- Allows issuers to engage in general solicitation and general advertising of their offerings, using any form of mass media, including unrestricted, publicly-available Internet websites, so long as sales of securities so offered are made only to residents of the state or territory in which the issuer has its principal place of business.

Subsection (4) revises issuer requirements in the following manner:

- The issuer must be a for-profit business entity that maintains its principal place of business and derives its revenues primarily from operation in this state. Under current law, the entity is required to be formed under the laws of the state, be registered with the Secretary of State, maintain its principal place of business in the state, and derive its revenues primarily from operations in the state;

- An issuer must conduct transactions for an offering of \$2.5 million or more through a dealer or intermediary registered with the OFR. For an offering of less than \$2.5 million, the issuer may, use such a dealer or intermediary. Under current law, an issuer must use a registered dealer or intermediary regardless of the amount of the offering;
- The issuer may not be subject to a disqualification established by the FSC or the OFR or a disqualification described in s. 517.1611, F.S., or newly created s. 517.0616, F.S. Each director, officer, manager, managing member, or general partner, or person occupying a similar status or performing a similar function, or person holding more than 20 percent of the equity interest of the issuer, is subject to this requirement. Section 517.0616, F.S., references disqualifications under 17 C.F.R. s. 230.506(d); and
- The issuer must deposit all funds received from investors in an account in a federally insured financial institution authorized to do business in this state. Further, an issuer must maintain all such funds in the account until the target offering amount is reached or the offering amount has not been reached within the period specified. Currently, an issuer must execute an escrow agreement with a federally insured financial institution authorized to do business in the state for the deposit of investor funds, and ensure that all offering proceeds are provided to the issuer only when the aggregate capital raised from all investors is equal to or greater than the target offering amount.

Subsection (5) requires an issuer to file a notice of the offering with the OFR together with a \$200 nonrefundable filing fee. The disclosures required to be included in the notice form are revised in the following manner:

- Eliminates the attestation requirement. Currently, the notice must contain an attestation under oath that the issuer, its predecessors, affiliated issuers, directors, officers, and control persons, or any other person occupying a similar status or performing a similar function, are not currently and have not been within the past 10 years the subject of regulatory or criminal actions involving fraud or deceit; and
- Must state the target offering amount as well as the date, not to exceed 365 days, by which the target amount must be reached in order to avoid termination of the offering.

Subsection (6) requires an issuer to amend the notice form within 10 business days instead of 30 days after any material information becomes inaccurate.

Subsection (7) authorizes an issuer to engage in general advertising and general solicitation of the offer to prospective investors. Any oral or written statements in advertising or solicitation of the offer are subject to enforcement under ch. 517, F.S. Any general advertising or other general announcement must state that the offering is limited and open only to residents of this state.

Subsection (8) is amended to require an issuer to provide a disclosure statement to the dealer or intermediary, as applicable: to the OFR at the time that the notice is filed and to each prospective investor at least three days before the investor's commitment to purchase or payment of any consideration. The disclosure statement must contain material information about the issuer and the offering. The bill provides the following changes:

- The statement must also include the email address of the issuer. Currently, the name, legal status, physical address, and website address of the issuer are required;

- The disclosure of the names of the managers, managing members, and general partners are added. Currently, the names of the directors, officers, and any person occupying a similar status or performing a similar function, and the name of each person holding more than 20 percent of the issuer's equity interests are required to be disclosed;
- The regular updates of the issuer regarding the progress in meeting the target offering amount is eliminated;
- The methodology for determining the price is eliminated and the requirement that prior to the sale, the investor must receive in writing the final price and all required disclosures and have an opportunity to rescind the commitment to purchase the securities;
- A description of the ownership and capital structure of the issuer is revised to eliminate the disclosure of the name and ownership level of each existing shareholder who owns more than 20 percent of any class of the securities of the issuer; how the securities being offered are being valued, and examples of methods of how such securities may be valued by the issuer in the future; and the risks to purchasers of the securities relating to minority ownership in the issuer, the risks associated with corporate action, including additional issuances of shares, a sale of the issuer or of assets of the issuer, or transactions with related parties;
- The bill adds a statement that the security being offered is not registered under federal or state securities laws and that the securities are subject to the limitations on resale contained in SEC Rule 147 or Rule 147A;
- The bill adds a disclosure regarding any issuer plans to offer additional securities in the future;
- The bill adds a disclosure about the risks to purchasers of the securities relating to the minority ownership in the issuer; and
- A description of the financial condition of the issuer.
  - The bill provides for offering amounts of \$500,000 or less, the inclusion of financial statements of the issuer are optional. Under current law, certified financial statements and the most recent tax return filed by the issuer are no longer required. Further, for offerings that within the preceding 12-month period, have target offering amounts of \$100,000 or less, the description must include the most recent income tax return filed by the issuer, if any, and a financial statement that must be certified by the principal executive officer of the issuer as true and complete in all material respects.
  - The bill provides for offering amounts of more than \$500,000 but not more than \$2.5 million, the description must include financial statements reviewed by a certified public accountant. Currently, for offerings within the preceding 12-month period, have target offering amounts of \$100,001 - \$500,000, the description must include financial statements prepared in accordance with generally accepted accounting principles and reviewed by a certified public accountant who is independent of the issuer, using professional standards and procedures for such review or standards and procedures established by the office, by rule, for such purpose.
  - The bill provides for offerings of more than \$2.5 million, the description must include audited financial statements. Under current law, for offerings within the preceding 12-month period, have target offering amounts of more than \$500,000, the description must include audited financial statements prepared in accordance with generally accepted accounting principles by a certified public accountant who is independent of the issuer, and other requirements as the FSC may establish by rule.

The bill provides the following additional statement must appear on the front page of the disclosure statement:

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this disclosure statement is truthful or complete. Any representation to the contrary is a criminal offense under Chapter 517, Florida Statutes.

The foregoing statement is added to the following statement which must be provided under current law. Both the previous and the following statement must appear in boldface, conspicuous type on the front page of the disclosure statement:

These securities are offered under, and will be sold in reliance upon, an exemption from the registration requirements of federal and Florida securities laws. Consequently, neither the Federal Government nor the State of Florida has reviewed the accuracy or completeness of any offering materials. In making an investment decision, investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. These securities are subject to restrictions on transferability and resale and may not be transferred or resold except as specifically authorized by applicable federal and state securities laws. Investing in these securities involves a speculative risk, and investors should be able to bear the loss of their entire investment.

Subsection (9) is amended to increase the cap for an offering from one to five million dollars. Offers or sales to a person owning 20 percent or more of the equity of any class or classes of securities or to an officer, director, partner, manager, managing member, general partner or trustee, or a person occupying a similar status, do not count toward this limitation.

Subsection (10) is revised to provide that sales of securities to non-accredited investors in a 12-month period may not exceed \$10,000. Currently, this calculation is based on the income and net worth of a non-accredited investor.

Current subsection (11) is eliminated, which requires the issuer to file with the OFR and provide to investors free of charge an annual report of the results of operations and financial statements of the issuer within 45 days after the end of its fiscal year, until no securities under this offering are outstanding. The annual reports must meet specified requirements.

The new subsection (11), authorizes the OFR to summarily suspend a notice filing if the payment for the filing is dishonored by the financial institution upon which the funds are drawn or if the issuer made a material false statement in the issuer's notice-filing. A material false statement made in the issuer's notice-filing results in a final order by the OFR revoking the notice-filing, issuing a fine and permanent bar to the issuer and all owners, officers, directors, and control persons, or any person occupying a similar status or performing a similar function of the issuer. The subsection provides technical conforming changes.

Subsection (12), relating to the duties of an intermediary, is revised, to provide if the issuer employs the services of an intermediary, the intermediary must take measures, as established by FSC rule, to reduce the risk of fraud with respect to the offering. Under current law, the intermediary must, with respect to transactions, verify the issuer is in compliance with the requirements of this section and, if necessary, deny an issuer access to its platform if the intermediary believes it is unable to adequately assess the risk of fraud of the issuer or its potential offering.

The subsection revises the provision relating to the information an intermediary must obtain from investors to document residency or status as an accredited investor. The bill requires an intermediary to obtain from each prospective investor a zip code or residence address, a copy of a driver license, and any other proof of residency in order for the issuer or intermediary to reasonably believe that the potential investor is a resident of this state. The FSC may adopt rules authorizing additional forms of identification and prescribing the process for verifying any identification presented by the prospective investor. The intermediary must obtain information sufficient for the issuer or intermediary to reasonably believe that a particular prospective investor is an accredited investor.

The subsection eliminates the requirement that an intermediary must obtain an affidavit from each investor regarding their income. Currently, an intermediary must obtain an affidavit from each investor stating that the investment being made by the investor is consistent with the income requirements. The bill provides conforming changes to eliminate requirements relating to escrow funds and escrow agreements.

The subsection eliminates the following duties of an intermediary:

- Require each investor to certify in writing that the investor understands the risks of investing, the terms of the offering, and the limitations on resale;
- Require each investor to answer questions demonstrating an understanding of the level of risk generally applicable to investments in startups, emerging businesses, and small issuers, and an understanding of the risk of illiquidity;
- Implement written policies and procedures that are reasonably designed to achieve compliance with federal and state securities laws; the anti-money laundering requirements applicable to registered brokers; and privacy requirements; and
- Solicit purchases, sales, or offers to buy securities offered or displayed on its website.

Subsection (14) provides if the issuer does not employ a dealer or an intermediary for an offering created pursuant to this section, the issuer may not:

- Compensate employees, agents, or other persons for the solicitation of, or based on the sale of, securities offered or displayed on its website;
- Hold, manage, possess, or otherwise handle investor funds or securities;
- Compensate promoters, finders, or lead generators for providing personal identifying information of any potential investor; or
- Engage in any other activities set forth by commission rule.

Subsection (15) provides any sale made pursuant to the exemption created under this section is voidable by the purchaser within three days after the first tender of consideration is made by such

purchaser to the issuer by notifying the issuer that the purchaser expressly voids the purchase. The purchaser's notice to the issuer must be sent by e-mail to the issuer's e-mail address set forth in the disclosure statement that is provided to the purchaser or purchaser's representative or by certified mail or overnight delivery service with proof of delivery to the mailing address set forth in the disclosure statement. Under current law, an investor may cancel a commitment to invest within three business days before the offering deadline, as stated in the disclosure statement, and issue refunds to all investors if the target offering amount is not reached by the offering deadline.

### **Florida Invest Local Exemption**

**Section 5** creates s. 517.0612, F.S., the "Florida Invest Local Exemption," a micro-offering exemption. The section provides the registration provisions of s. 517.07, F.S., do not apply to a securities transaction conducted in accordance with this section. However, such transactions are subject to the anti-fraud provisions of s. 517.301, F.S. The bill:

- Requires the offer or sale of securities under this section must meet the requirements of the federal exemption for intrastate offerings in s. 3(a)(11) of the Securities Act of 1933, Securities and Exchange Commission Rule 147, or Securities and Exchange Commission Rule 147A;
- Requires the issuer to be a for-profit business entity registered with the Department of State with its principal place of business in this state. The issuer cannot be, either before or as a result of the offering:
  - An investment company as defined in the Investment Company Act of 1940, as amended;
  - Subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended;
  - An organization with an undefined business operation, a company that lacks a business plan, a company that lacks a stated investment goal for the funds being raised, or a company that plans to engage in a merger or acquisition with an unspecified business entity, or
  - Subject to a disqualification pursuant to s. 517.0616, F.S.;
- Provides the sum of all cash and other consideration received for all sales of the security in reliance upon this exemption may not exceed \$500,000, less the aggregate amount received for all sales of securities by the issuer within the 12 months before the first offer or sale made in reliance on this exemption;
- Provides the issuer may not accept more than \$10,000 from any single purchaser unless:
  - The issuer reasonably believes the purchaser is an accredited investor;
  - The purchaser is an officer, director, partner, or trustee of an individual occupying a similar status or performing similar functions of the issuer; or the purchaser is an owner of 10 percent or more of the issuer's outstanding equity.
    - Any relative, spouse, child or family relative who has the same primary residence of the purchaser shall collectively be treated as a single purchaser; or
    - Any business entity of which the purchaser and any person related to the purchaser collectively owns more than 50 percent of the equity interest must be treated collectively as a single purchaser.
- Authorizes an issuer to engage in general advertising and general solicitation of the offering. Any general advertising or other general announcement must state that the offer is limited and open only to residents of the state. Written or oral statements made in the advertising or solicitation of the offer are subject to the enforcement provisions of this chapter;

- Requires a purchaser to receive, at least three business days prior to any binding commitment to purchase or consideration paid, a disclosure document which sets forth material information of the issuer, including but not limited to the following:
  - Issuer's name, form of entity and contact information.
  - The name and contact information of each director, officer or other manager of the issuer.
  - A description of the issuer's business.
  - A description of the security being offered and the total amount of the offering.
  - The intended use of proceeds from the sale of the securities.
  - The target amount of the offering.
  - A statement that if the target amount is not obtained in cash or the value of other tangible consideration received within a date that is no more than 180 days after the commencement of the offering, the offering will be terminated, and any funds or other consideration received from purchasers shall be promptly returned.
  - A statement that the security being offered is not registered under federal or state securities laws and that the securities are subject to the limitation on resale contained in 17 C.F.R. s. 230.147 or 17 C.F.R. s. 230.147A.
  - The names and addresses of all persons who will be involved in the offer and sale of securities on behalf of the issuer.
  - The depository institution into which investor funds will be deposited.
  - A statement in boldface type that reads: "Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense;"
- Requires all funds received from investors must be deposited into a depository institution authorized to do business in Florida. The issuer may not withdraw any amount of the offering proceeds unless and until the target amount has been received;
- Requires the issuer to file a notice of the offering with the OFR, in writing or in electronic form, in a format prescribed by FSC rule, no less than five business days before the offering commences, along with the disclosure document. The issuer must, within three business days, file an amended notice if there are any material changes to the information previously submitted;
- Provides an individual, entity, or entity employee who acts as an agent for the issuer in the offer or sale of securities under this exemption and is not registered as a dealer or intermediary under this chapter may not:
  - Receive compensation based upon the solicitation of purchases, sales, or offers to purchase the securities, or
  - Take custody of investor funds or securities; and
- Provides any sale, made pursuant to this exemption, is voidable by the purchaser, within three days after the first tender of consideration is made by such purchaser to the issuer, by notifying the issuer that the purchaser expressly voids the purchase by sending an email to the issuer's email address set forth in the disclosure document provided to purchasers or purchaser's representatives or by certified mail or overnight delivery service with proof of delivery to the mailing address set forth in such disclosure document.

**Section 6** creates s. 517.0613, F.S., relating to the failure to comply with a securities registration exemption. This provision is similar to SEC Rule 500 in Regulation D. The section clarifies that

an issuer who fails to comply with any exemption from securities registration is not precluded from claiming the availability of any other applicable state or federal exemption.

Further, the section provides that ss. 517.061, 517.0611, and 517.0612, F.S., are not available to an issuer for any transaction or chain of transactions that, although in technical compliance with the applicable provisions, is part of a plan or scheme to evade the registration provision of s. 517.07, F.S., and registration under s. 517.07, F.S., is required in connection with such transaction.

**Section 7** creates s. 517.0614, F.S., a stand-alone integration provision, which is consistent with 17 CFR s. 230.152, the SEC's integration rule, and is applicable to all issuer capital raising exemptions.

SEC Rule 152 significantly reduces the threat to companies, especially smaller ones that have continuing and sporadic needs for capital, that multiple offerings will be integrated as one, with the result that otherwise distinct valid exempt offerings will be deemed in violation of the registration provisions.

SEC Rule 152 provides a framework for determining whether multiple securities transactions should be considered part of the same offering and contains four non-exclusive safe harbors from integration. Offerings may not be integrated if, based on particular facts and circumstances, the issuer can establish either that each offering complies with the registration requirements of ch. 517, F.S., or that an exemption from registration is available for the particular offering, provided that any transaction or series of transactions that, although in technical compliance with ch. 517, F.S., is part of a plan or scheme to evade the registration requirements of ch. 517, F.S., will not have the effect of avoiding integration.

For an exempt offering prohibiting general solicitation, the issuer must have a reasonable belief, based on the facts and circumstances, with respect to each purchaser in the exempt offering, that the issuer or any person acting on the issuer's behalf:

- Did not solicit such purchaser through the use of general solicitation; or
- Established a substantive relationship with such purchaser before the commencement of the exempt offering, provided that a purchaser previously solicited by general solicitation is not deemed to have been solicited through the use of general solicitation in the current offering if, during the 45 calendar days following such previous general solicitation:
  - No offer or sale of the same or similar class of securities has been made by or on behalf of the issuer, including to such purchaser; and
  - The issuer or any person acting on the issuer's behalf has not solicited such purchaser through the use of general solicitation for any other security

### **Communication and Solicitation of Potential Investors**

**Section 8** creates s. 517.0615, F.S., relating to solicitation of interest, to authorize an issuer to solicit potential investors under limited circumstances consistent with federal rules.

Subsection (1) adopts provisions consistent with the federal “Demo Day Presentations” rule.<sup>40</sup> The subsection provides pre-offering communications made by an issuer in connection with a demo day presentation are not deemed to constitute general solicitation if the communications are made in connection with such an event or presentation being sponsored by a college, university, or other institution of higher education, a state or local government or instrumentality of a state or local government, a nonprofit organization, or an angel investor group, incubator, or accelerator; provided that advertising for the event does not reference any specific offering of securities by the issuer; and the sponsor of the meeting or seminar does not:

- Make investment recommendations or provide investment advice to attendees of the event;
- Engage in any investment negotiations between the issuer and investors attending the event;
- Charge attendees of the event any fees, other than reasonable administrative fees;
- Receive any compensation for making introductions between event attendees and issuers, or for investment negotiations between the parties; or
- Receive any compensation with respect to the event that would require registration or notice filing under the securities laws. The sponsorship of or participation in the seminar or meeting does not by itself require registration or notice-filing under ch. 517, F.S.

Information regarding an offering of securities by the issuer which is communicated or distributed by or on behalf of the issuer in connection with a seminar or meeting is limited to a notification that the issuer is in the process of offering or planning to offer securities, the type and amount of securities being offered, the intended use of the proceeds of the offering, and the unsubscribed amount in an offering. If the event allows attendees to participate virtually, rather than in person, online participation in the seminar or meeting is limited to certain specified participants.

Subsection (2) adopts provisions consistent with SEC Rule 241,<sup>41</sup> which allows “testing the waters” by an issuer in advance of making any offering. An issuer or their representative may communicate orally or in writing to determine whether there is any interest in a contemplated offering of securities exempt from federal registration requirements. The rule provides an exemption only with respect to the generic solicitation of interest. This will allow issuers to gauge the feasibility and market interest in a securities offering prior to incurring the time and expense of a preparing and conducting an offering. The solicitation or acceptance of money or other consideration or commitment from any person is prohibited.

SEC Rule 241 further requires the testing-the-waters materials to provide specified disclosures notifying potential investors about the limitations of the generic solicitation. The issuer’s communications must state the following:

- No money or other consideration is being solicited, and if sent in response, will not be accepted;
- No offer to buy the securities can be accepted and no part of the purchase price can be received until the issuer determines the exemption under which the offering is intended to be

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<sup>40</sup> 17 C.F.R. s. 230.148. See also, SEC, *General Solicitation, Demo Day Event*, <https://www.sec.gov/education/capitalraising/building-blocks/general-solicitation> (last visited Jan. 28, 2024). The SEC’s recent rule changes clarify how companies, under certain requirements, can pitch to potential investors at qualifying “Demo Day Presentation” events without being considered a general solicitation.

<sup>41</sup> 17 CFR s. 230.241.

conducted and, where applicable, the filing, disclosure, or qualification requirements of such exemption are met; and

- A person's indication of interest involves no obligation or commitment of any kind.

Any written communication may include a means for a person to indicate interest in a potential offering and an issuer may require such indication to include the person's name, address, telephone number, or email address in any response form included in the written communication.<sup>42</sup> A communication in accordance with the "testing the waters" provision is not subject to s. 501.059, F.S., regarding telephone solicitations.

**Section 9** creates s. 517.0616, F.S., relating to issuer disqualifications, to provide a registration exemption under s. 517.061(9), (10), and (11), s. 517.0611, or 517.0612, F.S., is not available to an issuer that would be disqualified under 17 C.F.R. s. 230.506(d) at the time the issuer makes an offer for the sale of a security. "Bad actor" disqualifying events include, but are not limited to:

- Specified relevant criminal convictions, certain court injunctions and restraining orders, and final orders of certain state and federal regulators;
- Certain SEC (Securities and Exchange Commission) disciplinary orders;
- Certain SEC cease-and-desist orders; and
- Suspension or expulsion from membership in a self-regulatory organization (SRO), such as FINRA, or from association with an SRO member.

**Section 10** revises s. 517.081, F.S., relating to securities registration requirements. To provide greater clarity, the provisions relating to the rulemaking authority of the FSC are consolidated and revised within the section. The section eliminates the five-year annual financial reporting requirements for Small Company Offering Registration (SCOR) and the prohibition against a person using the SCOR registration method for the resale of securities, which will allow non-control persons to resell securities through a Florida-based registration process.

Under current law, the FSC must adopt a form for a simplified offering circular to register securities that are sold in offerings in which the aggregate offering price in any consecutive 12-month period does not exceed five million dollars. The simplified offering circular is synonymous with a SCOR under the Securities Act of 1933.<sup>43</sup> To qualify for use of the simplified offering circular, the issuer must:

- File an annual financial report with OFR that contains a balance sheet as of the end of the issuer's fiscal year and a statement of income for such year (and if the issuer has more than 100 security holders at the end of a fiscal year, the financial statements must be audited); and
- File annual financial reports with OFR for each of the first five years following the effective date of the registration.

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<sup>42</sup> The SEC, *Facilitating Capital Formation and Expanding Investment Opportunities by Improving Access to Capital in Private Markets, A Small Entity Compliance Guide* (Mar. 10, 2021), <https://www.sec.gov/corpfin/facilitating-capital-formation-secg> (last visited Jan. 28, 2024).

<sup>43</sup> SCOR was designed for use by companies seeking to raise capital through a public offering of securities exempt from registration with the SEC under the Securities Act of 1933 pursuant to Rule 504 of Regulation D, Rule 147, or 147A.

**Section 11** amends s. 517.101, F.S., relating to consent to service, to expand the type of persons who are eligible to sign the written consent on behalf of a business entity to include directors, managers, managing members, general partners, trustees, or officers of the issuer.

The bill also expands the persons who can authorize the signer to execute the written consent to include the issuer's general partners and managing members. Under current law, an issuer is required, upon any initial application for registration under the act or upon request of the OFR, to file with such application the irrevocable written consent to service. The written consent must be authenticated by the seal of said issuer (if it has a seal), and by the acknowledged signature of a member of the co-partnership or company, or by the acknowledged signature of any officer of the incorporated or unincorporated association, and such consent to service must be duly authorized by resolution of the board of directors, trustees, or managers of the corporation or association (and such resolutions must be filed as a certified copy with the written consent to service).

### **Securities Guaranty Fund (Sections 12 and 13)**

**Section 12** amends s. 517.131, F.S., relating to the Securities Guaranty Fund (Fund), to revise eligibility requirements and provide technical changes. In subsection (1), the definition of the term, "final judgment," is amended to also include an arbitration award confirmed by a court of competent jurisdiction. The subsection is also amended to eliminate the requirement that the wrongdoer be a dealer, investment adviser, or associated person registered under ch. 517, F.S.

Subsection (2) is amended to specify the purpose of the Fund is to provide monetary relief to victims of securities violations under this chapter who are entitled to monetary damages or restitution and cannot recover the full amount of such monetary damages or restitution from the wrongdoer.

Subsection (3) is amended to require that a person meet the following conditions to be eligible for payment from the Fund, if the person:

- Holds an unsatisfied final judgment in which a wrongdoer was found to have violated ss. 517.07, F.S., or 517.301, F.S.;
- Has applied any amounts recovered from the judgment debtor or from any other source to the damages awarded by the court or arbitrator; and
- Is a natural person who was a resident of this state, or is a business entity that was domiciled in this state, at the time of the violation giving rise to the claim; or is a receiver appointed pursuant to s. 517.191(2), F.S., by a court of competent jurisdiction for a wrongdoer order to pay restitution under s. 517.191(3), F.S. as a result of a violation of ss. 517.07, F.S., or 517.301, F.S., which has requested payment from the Fund on behalf of an eligible for payment.

This section is amended to eliminate the current requirement that the act for which recovery is sought occurred on or after January 1, 1979, and to eliminate the ability of the OFR to waive certain requirements under this section. The section provides that changes in the bill relating to the Fund apply to acts for which recovery is sought occurred on or after October 1, 2024.

Further, the requirement that a person make all reasonable searches and inquiries to ascertain whether the judgment debtor possesses real or personal property or other assets subject to being

sold or applied in satisfaction of the judgment is eliminated. Under current law, for a person to be eligible to receive payment from the Fund, the following requirements must be met:

- The act for which recovery is sought occurred on or after January 1, 1979;
- The person has received final judgement from a court that a violation of ss. 517.07 or 517.301, F.S., occurred for which monetary damages are awarded;
- The person has made all reasonable searches and inquiries to ascertain whether the violator possesses assets that can be sold in satisfaction of the damages awarded, and in such search has discovered no or insufficient assets; and
- The person has applied any amounts recovered from the violator, or from any other source, to the damages awarded by the court.

Subsection (4) is created to prohibit a person from being eligible for payment from the Fund if the person has:

- Participated or assisted in a violation of ch. 517, F.S.;
- Attempted to commit or committed a violation of ch. 517, F.S.; or
- Profited from a violation of ch. 517, F.S.

Subsection (5) provides an eligible person, or a receiver on behalf of an eligible person, seeking payment from the Fund must submit a written application within one year after the date of the final judgement, the date on which a restitution order has been ripe for execution, or the date of any appellate decision, and at a minimum, must contain certain specified information. The application must contain such information as the OFR may require, including, but not limited to:

- The full name, address, and contact information of the eligible person and, if applicable, the receiver;
- The person ordered to pay restitution;
- If the eligible person is a business entity, the eligible person's form and place of organization and a copy of the business entity's articles of incorporation, its articles of organization with amendments, trust agreement, or its partnership agreement;
- A copy of the final judgment;
- A copy of any restitution ordered pursuant to s. 517.191(3), F.S.;
- An affidavit stating either one of the following:
  - The eligible person has made all reasonable searches and inquiries to ascertain whether the judgment debtor possesses real or personal property or other assets subject to being sold or applied in satisfaction of the final judgment and, by the eligible person's search, that the eligible person has not discovered any property or assets.
  - The eligible person has taken necessary action on the property and assets of the wrongdoers but the final judgment remains unsatisfied;
- An affidavit from the receiver stating the amount of restitution owed to the eligible person on whose behalf the claim is filed; the amount of any money, property, or assets paid to the eligible person on whose behalf the claim is filed by the person over whom the receiver is appointed; and the amount of any unsatisfied portion of any eligible person's order of restitution;
- The eligible person's residence or domicile at the time of the violation of ss. 517.07, F.S., or 517.301, F.S., which resulted in the eligible person's monetary damages;
- The amount of any unsatisfied portion of the eligible person's final judgment; and
- Whether an appeal or motion to vacate an arbitration award has been filed.

Subsection (6) provides if the OFR finds that a person is eligible and if the person has complied with the provisions of this section, the OFR must approve a person for payment from the Fund within 90 days after the OFR's receipt of a complete application. Each eligible person or receiver must be given written notice, personally or by mail, that the OFR intends to approve or deny, or has approved or denied, the application for payment from the Fund.

The current provision in s. 517.141(9), F.S., which requires an eligible person or receiver to assign all right, title, and interest in the final judgment or order of restitution, to the extent of such payment to the OFR upon receipt of the notice indicating the OFR's intent to approve an application for payment from the Fund and before any disbursement, is transferred to s. 517.131, F.S.

Subsection (7) provides upon receipt of the OFR's decision to approve an application for payment from the Fund, and prior to any disbursement, the eligible person or receiver is required to assign all right, title, and interest in the final judgment or order of restitution equal to the amount of such payment to the OFR, on a form prescribed by commission rule.

Subsection (8) provides the OFR will deem an application for payment from the Fund abandoned if the eligible person or receiver, or any person acting on behalf of the eligible person or receiver, fails to timely complete the application as prescribed by FSC rule. The time period to complete an application is tolled during the pendency of an appeal or motion to vacate an arbitration award.

**Section 13** amends s. 517.141, F.S., relating to payments from the Fund. The following terms are defined:

- "Claimant" means a person determined eligible for payment under s. 517.131 that is approved by the office for payment from the Fund;
- "Specified adult" has the same meaning as in s. 517.34(1), F.S.; and
- "Final judgment" has the same meaning as in s. 517.131(1), F.S.

The bill also provides a claimant is entitled to disbursement from the Fund in the amount equal to lesser of:

- The unsatisfied portion of the claimant's final judgment or final order of restitution, but only to the extent that the final judgment or final order of restitution reflects actual or compensatory damages, excluding post-judgment interest, costs and attorneys fees; or
- The sum of \$15,000; or
- If the claimant is a specified adult or if a specified adult is a beneficial owner or beneficiary of the claimant, the sum of \$25,000.

Current language allows for the unsatisfied portion of a judgment or \$10,000, whichever is less. The aggregate limit on claims is increased from \$100,000 to \$250,000.

The bill provides if at any time the balance of the Fund is insufficient to satisfy a valid claim or portion thereof approved by the OFR, the OFR must satisfy the unpaid claim or portion of the valid claim as soon as a sufficient amount of money has been deposited into or transferred to the Fund. If more than one unsatisfied claim is outstanding, the claims must be paid in the sequence

in which claims were approved by final order of the OFR, as long as such final order is not subject to appeal or other pending proceeding.

All payments made from the Fund must be made by the Chief Financial Officer (CFO) upon authorization by the OFR. The OFR must submit authorization within 30 days after the approval of an eligible person for payment from the Fund.

The two-year payment waiting period prior to payment is eliminated. Technical conforming changes are made to the section to include final orders of restitution in addition to final judgments.

The section provides if a claimant knowingly and willfully files or causes to be filed an application under s. 517.131, F.S., or documents in support of the application, any of which contain false, incomplete, or misleading information in any material aspect, the claimant forfeits all payments from the Fund and that such act violates s. 517.301(1)(c), F.S.

The Department of Financial Services (DFS), instead of the OFR, is authorized to institute legal proceedings to enforce compliance with s. 517.131, F.S., and to recover moneys owed to the Fund, and to recover interest, costs, and attorney's fees in any action brought pursuant to this section in which the DFS prevails.

### **OFR Enforcement Authority**

**Section 14** amends s. 517.191, F.S., relating to enforcement by the OFR and the Attorney General.

The amount of a civil penalty against a natural person found to have violated any provision of this chapter, other than s. 517.301, F.S., is increased from \$10,000 to \$20,000. Further, the civil penalty must be the greater of the specified amount or the amount of any pecuniary loss to the investor or pecuniary gain to a business entity. Further, the section is amended to allow for a civil fine of twice the amount that would otherwise be imposed if a specified adult, i.e., a natural person 65 years of age or older, or a vulnerable adult, is a victim of a violation of this chapter.<sup>44</sup> The OFR is authorized to recover any costs and attorney fees related to the OFR's investigation or enforcement of ch. 517, F.S., in an action for injunctive relief or the OFR's enforcement of any restraining order or injunction. Any costs and attorney fees collected must be deposited in the Anti-Fraud Trust Fund.

The section authorizes the OFR to apply to the court for an order directing the defendant to make restitution of those sums shown by the OFR to have been obtained in violation of the Act. the OFR may also petition the court to impose a civil penalty against the defendant in an amount not to exceed:

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<sup>44</sup> The act defines "specified adult" as a natural person 65 years of age or older, or a natural person 18 years of age or older whose ability to perform the normal activities of daily living or to provide for his or her own care or protection is impaired due to a mental, emotional, sensory, long-term physical, or developmental disability or dysfunction, or brain damage, or the infirmities of aging. See s. 517.34(1)(b), and s. 415.102(28), F.S.

- \$20,000 for a natural person or \$25,000 for a business entity, or the gross amount of pecuniary loss to investors or pecuniary gain to a natural person or business entity for each such violation, other than a violation of s. 517.301, F.S.; or
- Plus the greater of \$50,000 for a natural person or \$250,000 for a business entity, or the gross amount of any pecuniary loss to investors or pecuniary gain to a natural person or business entity for each violation of s. 517.301, F.S.; or
- Twice the amount of the civil penalty that would otherwise be imposed, if the victim is a specified adult.

The OFR may recover costs and attorney fees related to any investigation or enforcement. Any moneys recovered by the OFR must be deposited into the Fund.

The OFR is authorized to hold any control person who controls any person found to have violated ch. 517, F.S., or of any rule adopted thereunder, jointly and severally liable with, and to the same extent as, such controlled person in any action brought under this section unless the control person acted in good faith and did not directly or indirectly induce the act that constitutes the violation or cause of action. This provision is found in the federal securities statutes and is also found in the Uniform Securities Act and laws in other states. The provision provides a defense for control persons who are able to show that they were not responsible for the controlled person's act that resulted in a securities law violation.

Further, the OFR is authorized to hold a person who knowingly or recklessly provides substantial assistance to another person in violation of ch. 517, F.S., or of any rule adopted thereunder, liable to the same extent as the person to whom such assistance is provided.

The bill grants the OFR authority to issue and serve a cease and desist order if the OFR has reason to believe the person violates or has violated or is about to violate this chapter, any commission or OFR rule or order, or any written agreement entered into with the OFR.

In addition, under the bill, the OFR may issue an emergency cease and desist order if the OFR finds any violations of ch. 517, F.S., or any rule, order or written agreement by the OFR or commission presents an immediate danger to the public. Such emergency cease and desist may be issued by an immediate final order. The cease and desist order must recite with particularity the facts underlying such findings. The emergency cease and desist order is effective immediately upon service of a copy of the order on the respondent named in the order and remains effective for 90 days after issuance.

If the OFR begins nonemergency cease and desist proceedings, the emergency cease and desist order remains effective until the conclusion of the proceedings under ss. 120.569 and 120.57, F.S.

The bill allows the OFR to permanently, or for a specific period of time, bar any person found to have violated ch. 517, F.S.

The section provides the act does not limit the authority of the OFR to bring an administrative action against any person that is the subject of a civil action brought pursuant to the act or limit the authority of the OFR to engage in investigations or enforcement actions with the Attorney

General. However, a person may not be subject to both a civil penalty described above and an administrative fine under subsection (3) as a result of the same facts. An enforcement action must be brought within six years after the facts giving rise to the cause of action were discovered or should have been discovered with the exercise of due diligence, but not more than eight years after the date such violation occurred.

Furthermore, the bill does not limit any statutory right of the state to punish a person for violation of a law. When not in conflict with the Constitution or law of the United States, Florida courts have the same jurisdiction over civil suits instituted in connection with the sale or offer of sale of securities under any laws of the United States as the courts of Florida may have with regard to similar cases instituted under Florida laws.

### **Private Remedies Available in Case of Unlawful Sale**

**Section 15** amends s. 517.211, F.S., relating to private remedies available in case of unlawful sale. Subsection (3) allows a purchaser to hold any control person who controls any person found to have violated ss. 517.07 or 517.12(1), (3), (4), (8), (10), (12), (15), or (17), F.S., jointly and severally liable with, and to the same extent as, such controlled person in any action brought in action for rescission unless the control person acted in good faith and did not directly or indirectly induce the act that constitutes the violation or cause of action.

Subsection (4) clarifies that interest accrues from the date the security is purchased.

Subsection (8) is created to incorporate the applicable portions of current ss. 517.241(2), and 517.241(3) F.S., as new subsection (8) and (9), respectively, and without substantive change. Technical, conforming changes are also made to the section.

**Section 16** repeals s. 517.221, F.S., relating to cease and desist orders, and transfers these provisions into s. 517.191, F.S. relating to enforcement authority of the OFR.

**Section 17** repeals s. 517.241, F.S., relating to remedies, and its applicable provisions are transferred to ss. 517.191, F.S., and 517.211, F.S., respectively.

### **Anti-Fraud Provisions (Sections 18-20)**

Sections 517.301, 517.311, and 517.312, F.S., contain the provisions creating liabilities under ch. 517, F.S., for material misrepresentation or omissions.

**Section 18** amends s. 517.301, F.S., relating to fraudulent transactions; falsification or concealment of facts. The section provides the following changes:

- Subsection (1)(a) is amended to include transactions exempted under ss. 517.0611 and 517.0612, F.S., directly or indirectly;
- Subsection (1)(a)3.(b) is amended to clarify an offer to sell securities can be published, given publicity, or circulated through the use of any means;
- Subsection (2)(b) is amended to include electronic mail, text messages, social media, or other electronic means to the list of tangible personal property;

- Subsection (3) is created to incorporate current s. 517.311(1), F.S. The section is amended to include transactions exempted under ss. 517.051, 517.061, 517.0611 and 517.0612, F.S., and to replace the term “company” with “business entity” for consistency;
- Subsection (4) is created to incorporate current s. 517.311(2), F.S. The section is amended to include persons within the purview of ss. 517.051, 519.061, 517.0611, 517.0612, and 517.081, F.S. and to remove gender specific pronouns;
- Subsection (5) is created to incorporate current s. 517.311(3), F.S.;
- Subsection (6) is created to incorporate current s. 517.311(4), F.S; and
- Subsection (7) is created to incorporate current s. 517.312(1), F.S.

**Section 19** repeals s. 517.311, F.S., relating to false representations, deceptive words, and enforcement; and transfers provisions to s. 517.191, F.S., relating to enforcement.

**Sections 20** repeals s. 517.312, F.S., relating to securities, investments, boiler rooms; prohibited practices; and remedies. Provisions are transferred to s. 517.301, F.S., relating to fraudulent transactions and falsification or concealment of facts.

### **Technical, Conforming Changes**

**Section 21.** Amends s. 517.072, F.S., to revise cross references.

**Section 22** amends s. 517.12, F.S., to revise cross references.

**Section 23** amends s. 517.1201, F.S., to revise cross reference.

**Section 24** amends s. 517.1202, F.S., to revise cross reference.

**Section 25** amends s. 517.302, F.S., to revise cross reference.

### **Effective Date**

**Section 26** provides an effective date of October 1, 2024.

## **IV. Constitutional Issues:**

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. State Tax or Fee Increases:

None.

E. Other Constitutional Issues:

None.

**V. Fiscal Impact Statement:**

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

The implementation of the pre-offering “test the waters” provision may reduce costs of conducting an exempt offering by providing businesses the flexibility to determine the optimal avenue for raising capital before spending thousands of dollars on legal and administrative fees.

In the event an enforcement action is required, the bill increases the civil penalty imposable upon a natural person from \$10,000 to \$20,000. The bill also provides twice the amount of the civil penalty may be imposed in the event a specified adult, as defined in s. 517.34(1), F.S., is a victim of a violation of this chapter. The Office of Financial Regulation (OFR) may recover any costs and attorney fees related to its investigation or enforcement.

Applicants may experience out of pocket expenses for any fingerprint or state or federal background check required under the bill. The cost for a state and national criminal history record check is \$37.25 per name. In addition, the Florida Department of Law Enforcement (FDLE) reports Livescan Services may assess additional processing fees,<sup>45</sup> which may require an applicant to pay additional fees.<sup>46</sup>

C. Government Sector Impact:

The bill has an indeterminate cost to state revenues and expenditures.

The bill requires issuers conducting an offering under the accredited investor exemption to file a notice of transaction, a consent to service of process, and a copy of the general announcement with the OFR. Further, the bill requires issuers conducting an offering under the Florida Invest Local Exemption to file a notice of the offering and a copy of the disclosure document with the OFR.

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<sup>45</sup> The Florida Department of Law Enforcement, *Senate Bill Analysis 532* (Jan. 22, 2024) (on file with the Senate Appropriations Committee on Agriculture, Environment and General Government).

<sup>46</sup> *Id.*

The OFR will need to review these documents. The bill does not provide an appropriation for additional staff to conduct such reviews. However, the OFR has indicated the need for additional staff to address the review of these documents is not currently anticipated.<sup>47</sup>

In the event an enforcement action is required, the bill increases the civil penalty imposable upon a natural person from \$10,000 to \$20,000. The bill also provides twice the amount of the civil penalty may be imposed in the event a specified adult, as defined in s. 517.34(1), F.S., is a victim of a violation of this chapter. The OFR may recover any costs and attorney fees related to its investigation or enforcement. Any moneys recovered by the OFR must be deposited into the Anti-Fraud Trust Fund.

The bill may have a positive impact to the FDLE's Operating Trust Fund as the cost for a state and national criminal history record check is \$37.25 per name submitted. The Federal Bureau of Investigation (FBI) receives \$13.25 and, pursuant to s. 943.053(3)(e), F.S., the FDLE retains \$24.<sup>48</sup>

## **VI. Technical Deficiencies:**

None.

## **VII. Related Issues:**

Chapter 435, F.S., establishes two levels of background screenings that employees must undergo as a condition of employment. Level 1 is the more basic screening and involves an in-state name-based background check, employment history check, statewide criminal correspondence check through the Florida Department of Law Enforcement (FDLE), a sex offender registry check, local criminal records check, and a domestic violence check.<sup>49</sup> Level 2 screenings are more thorough because they apply to positions of responsibility or trust, often with more vulnerable people, such as children, the elderly, or the disabled. Level 2 screenings require a security background investigation that includes fingerprint-based searches for statewide criminal history records through FDLE, a national criminal history records check through the Federal Bureau of Investigation (FBI), and a domestic violence check. It may also include local criminal records checks. A Level 2 screening disqualifies a person from employment if the person has a conviction or unresolved arrest for any one of more than 50 criminal offenses.<sup>50</sup>

If it is the intent of the bill to require applicants to undergo finger-print based, state and national criminal history record checks (Level 2), during the application process, the FDLE recommends stating so specifically within each applicable section of the bill. To facilitate state and national criminal history record checks, the following language should be included to ensure compliance with federal law and the United States Department of Justice (DOJ)-established criteria for the

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<sup>47</sup> Email from Ash Mason, Legislative Affairs Director, Office of Financial Regulation, to Michelle Sanders, Legislative Analyst, Senate Appropriations Committee on Agriculture, Environment and General Government (Jan. 30, 2024) (on file with Senate Appropriations Committee on Agriculture, Environment and General Government).

<sup>48</sup> The Florida Department of Law Enforcement, *Senate Bill Analysis 532* (Jan. 22, 2024) (on file with the Senate Appropriations Committee on Agriculture, Environment and General Government).

<sup>49</sup> Section 435.03, F.S.

<sup>50</sup> Section 435.04, F.S.

submission of fingerprints to the FBI's Criminal Justice Information Services (CJIS) Division for a national criminal history background check.<sup>51</sup>

An applicant must submit a full set of fingerprints to the department or to a vendor, entity, or agency authorized by s. 943.053(13). The department, vendor, entity, or agency shall forward the fingerprints to the Department of Law Enforcement for state processing and the Department of Law Enforcement shall forward the fingerprints to the Federal Bureau of Investigation for national processing.

Fees for state and federal fingerprint processing shall be borne by the applicant. The state cost for fingerprint processing shall be as provided in s. 943.053(3)(e).<sup>52</sup>

If the intent of the bill is to continue to require applicants to undergo Level 2 background checks, the FDLE recommends certain language be updated within the bill, in accordance with guidance from the FBI's Criminal Justice Information Law Unit (CJILU), as continued access to national criminal history record information is reliant upon the FBI's approval of the legislative changes.

In order to properly facilitate Level 2 background checks, the FDLE suggest amending chs. 517 and 626, F.S., where applicable, to include the following recommended fingerprint submission language:

An applicant must submit a full set of fingerprints to the department or to a vendor, entity, or agency authorized by s. 943.053(13). The department, vendor, entity, or agency shall initially submit the fingerprints to the Department of Law Enforcement for state processing, and thereafter the Department of Law Enforcement shall forward the fingerprints to the Federal Bureau of Investigation for a national criminal history record check.<sup>53</sup>

The following fee language, if and where applicable, should also be added at the end of the above recommended paragraph:

Fees for state and federal fingerprint processing shall be borne by the applicant. The state cost for fingerprint processing shall be as provided in s. 943.053(3)(e).

The FDLE suggests clarifying the population meant within the following categories, as specifically as possible to ensure compliance with the criteria set forth in Public Law 92-544:

- “Any persons directly or indirectly controlling the applicant [or registrant]” should be redefined or removed;

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<sup>51</sup>The Florida Department of Law Enforcement, *Senate Bill Analysis 532* (Jan. 22, 2024) (on file with the Senate Appropriations Committee on Agriculture, Environment, and General Government).

<sup>52</sup> *Id.*

<sup>53</sup> *Id.*

- The phrase “includes, unless otherwise specified, a person” should be further defined or removed; and
- Terms, which may be interpreted as overly broad and undefined by the FBI to include: “agent”; “principal”; “partner”; “any officer”; “officer”; “direct owners”; “indirect owners; director”; “manager”; “managing member”; “branch manager”; “similar”; “directly or indirectly”; “including but not limited to”; and “otherwise”. These terms should be defined, as applicable, throughout Chapter 517 and Chapter 626, F.S., relating to license or appointment types which require Level 2 background checks.<sup>54</sup>

The FDLE, following guidance from the FBI’s CJILU, recommends the following terms within the definition of “intermediary”, as defined in s. 517.021(13), F.S., need to be defined: “corporation”, “trust”, “partnership”, “association”, and “other legal entity”.<sup>55</sup>

### **VIII. Statutes Affected:**

This bill substantially amends the following sections of the Florida Statutes: 517.021, 517.051, 517.061, 517.0611, 517.0612, 517.081, 517.101, 517.131, 517.141, 517.191, 517.211, 517.301, 517.072, 517.12, 517.1201, 517.1202, and 517.302.

This bill creates the following sections of the Florida Statutes: 517.0613, 517.0614, 517.0615, and 517.0616.

This bill repeals the following sections of the Florida Statutes: 517.221, 517.241, 517.311, and 517.312.

### **IX. Additional Information:**

#### **A. Committee Substitute – Statement of Changes:**

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

CS by Banking and Insurance Committee on January 16, 2024:

The CS provides the following changes:

- Makes the revisions to the Securities Guaranty Fund prospective to October 1, 2024.
- Clarifies the exemption for transactions conducted through alternative trading systems.
- Provides technical, conforming changes.

#### **B. Amendments:**

None.

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This Senate Bill Analysis does not reflect the intent or official position of the bill’s introducer or the Florida Senate.

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<sup>54</sup> *Id.*

<sup>55</sup> *Id.*