



# VIRGINIA

## REGISTER OF REGULATIONS

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### TABLE OF CONTENTS

<b>Register Information Page</b> .....	1519
<b>Publication Schedule and Deadlines</b> .....	1520
<b>Petitions for Rulemaking</b> .....	1521
<b>Notices of Intended Regulatory Action</b> .....	1522
<b>Regulations</b> .....	1523
9VAC20-60. Virginia Hazardous Waste Management Regulations (Final) .....	1523
12VAC5-410. Regulations for the Licensure of Hospitals in Virginia (Proposed).....	1523
12VAC5-412. Regulations for the Licensure of Abortion Facilities (Proposed) .....	1523
12VAC30-50. Amount, Duration, and Scope of Medical and Remedial Care Services (Final) .....	1541
12VAC35-230. Operation of the Individual and Family Support Program (Emergency).....	1542
21VAC5-10. General Administration - Securities Act (Proposed) .....	1545
21VAC5-20. Broker-Dealers, Broker-Dealer Agents and Agents of the Issuer (Proposed) .....	1545
21VAC5-30. Securities Registration (Proposed) .....	1545
21VAC5-40. Exempt Securities and Transactions (Proposed) .....	1545
21VAC5-45. Federal Covered Securities (Proposed) .....	1545
21VAC5-80. Investment Advisors (Proposed) .....	1545
21VAC5-100. Disclosure of Information or Documents by Commission (Proposed).....	1545
<b>General Notices/Errata</b> .....	1596

Virginia Code Commission

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# THE VIRGINIA REGISTER INFORMATION PAGE

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**THE VIRGINIA REGISTER OF REGULATIONS** is an official state publication issued every other week throughout the year. Indexes are published quarterly, and are cumulative for the year. The *Virginia Register* has several functions. The new and amended sections of regulations, both as proposed and as finally adopted, are required by law to be published in the *Virginia Register*. In addition, the *Virginia Register* is a source of other information about state government, including petitions for rulemaking, emergency regulations, executive orders issued by the Governor, and notices of public hearings on regulations.

## **ADOPTION, AMENDMENT, AND REPEAL OF REGULATIONS**

An agency wishing to adopt, amend, or repeal regulations must first publish in the *Virginia Register* a notice of intended regulatory action; a basis, purpose, substance and issues statement; an economic impact analysis prepared by the Department of Planning and Budget; the agency's response to the economic impact analysis; a summary; a notice giving the public an opportunity to comment on the proposal; and the text of the proposed regulation.

Following publication of the proposal in the *Virginia Register*, the promulgating agency receives public comments for a minimum of 60 days. The Governor reviews the proposed regulation to determine if it is necessary to protect the public health, safety and welfare, and if it is clearly written and easily understandable. If the Governor chooses to comment on the proposed regulation, his comments must be transmitted to the agency and the Registrar no later than 15 days following the completion of the 60-day public comment period. The Governor's comments, if any, will be published in the *Virginia Register*. Not less than 15 days following the completion of the 60-day public comment period, the agency may adopt the proposed regulation.

The Joint Commission on Administrative Rules (JCAR) or the appropriate standing committee of each house of the General Assembly may meet during the promulgation or final adoption process and file an objection with the Registrar and the promulgating agency. The objection will be published in the *Virginia Register*. Within 21 days after receipt by the agency of a legislative objection, the agency shall file a response with the Registrar, the objecting legislative body, and the Governor.

When final action is taken, the agency again publishes the text of the regulation as adopted, highlighting all changes made to the proposed regulation and explaining any substantial changes made since publication of the proposal. A 30-day final adoption period begins upon final publication in the *Virginia Register*.

The Governor may review the final regulation during this time and, if he objects, forward his objection to the Registrar and the agency. In addition to or in lieu of filing a formal objection, the Governor may suspend the effective date of a portion or all of a regulation until the end of the next regular General Assembly session by issuing a directive signed by a majority of the members of the appropriate legislative body and the Governor. The Governor's objection or suspension of the regulation, or both, will be published in the *Virginia Register*. If the Governor finds that changes made to the proposed regulation have substantial impact, he may require the agency to provide an additional 30-day public comment period on the changes. Notice of the additional public comment period required by the Governor will be published in the *Virginia Register*.

The agency shall suspend the regulatory process for 30 days when it receives requests from 25 or more individuals to solicit additional public comment, unless the agency determines that the changes have minor or inconsequential impact.

A regulation becomes effective at the conclusion of the 30-day final adoption period, or at any other later date specified by the promulgating agency, unless (i) a legislative objection has been filed, in which event the regulation, unless withdrawn, becomes effective on the date specified, which shall be after the expiration of the 21-day objection period; (ii) the Governor exercises his authority to require the agency to provide for additional public comment, in which event the regulation,

unless withdrawn, becomes effective on the date specified, which shall be after the expiration of the period for which the Governor has provided for additional public comment; (iii) the Governor and the General Assembly exercise their authority to suspend the effective date of a regulation until the end of the next regular legislative session; or (iv) the agency suspends the regulatory process, in which event the regulation, unless withdrawn, becomes effective on the date specified, which shall be after the expiration of the 30-day public comment period and no earlier than 15 days from publication of the readopted action.

A regulatory action may be withdrawn by the promulgating agency at any time before the regulation becomes final.

## **FAST-TRACK RULEMAKING PROCESS**

Section 2.2-4012.1 of the Code of Virginia provides an exemption from certain provisions of the Administrative Process Act for agency regulations deemed by the Governor to be noncontroversial. To use this process, Governor's concurrence is required and advance notice must be provided to certain legislative committees. Fast-track regulations will become effective on the date noted in the regulatory action if no objections to using the process are filed in accordance with § 2.2-4012.1.

## **EMERGENCY REGULATIONS**

Pursuant to § 2.2-4011 of the Code of Virginia, an agency, upon consultation with the Attorney General, and at the discretion of the Governor, may adopt emergency regulations that are necessitated by an emergency situation. An agency may also adopt an emergency regulation when Virginia statutory law or the appropriation act or federal law or federal regulation requires that a regulation be effective in 280 days or less from its enactment. The emergency regulation becomes operative upon its adoption and filing with the Registrar of Regulations, unless a later date is specified. Emergency regulations are limited to no more than 12 months in duration; however, may be extended for six months under certain circumstances as provided for in § 2.2-4011 D. Emergency regulations are published as soon as possible in the *Register*. During the time the emergency status is in effect, the agency may proceed with the adoption of permanent regulations through the usual procedures. To begin promulgating the replacement regulation, the agency must (i) file the Notice of Intended Regulatory Action with the Registrar within 60 days of the effective date of the emergency regulation and (ii) file the proposed regulation with the Registrar within 180 days of the effective date of the emergency regulation. If the agency chooses not to adopt the regulations, the emergency status ends when the prescribed time limit expires.

## **STATEMENT**

The foregoing constitutes a generalized statement of the procedures to be followed. For specific statutory language, it is suggested that Article 2 (§ 2.2-4006 et seq.) of Chapter 40 of Title 2.2 of the Code of Virginia be examined carefully.

## **CITATION TO THE VIRGINIA REGISTER**

The *Virginia Register* is cited by volume, issue, page number, and date. **29:5 VA.R. 1075-1192 November 5, 2012**, refers to Volume 29, Issue 5, pages 1075 through 1192 of the *Virginia Register* issued on November 5, 2012.

*The Virginia Register of Regulations* is published pursuant to Article 6 (§ 2.2-4031 et seq.) of Chapter 40 of Title 2.2 of the Code of Virginia.

Members of the Virginia Code Commission: **John S. Edwards**, Chairman; **Gregory D. Habeeb**; **James M. LeMunyon**; **Ryan T. McDougle**; **Robert L. Calhoun**; **E.M. Miller, Jr.**; **Thomas M. Moncure, Jr.**; **Wesley G. Russell, Jr.**; **Charles S. Sharp**; **Robert L. Taverner**; **Christopher R. Nolen**; **J. Jasen Eige** or **Jeffrey S. Palmore**.

Staff of the Virginia Register: **Jane D. Chaffin**, Registrar of Regulations; **June T. Chandler**, Assistant Registrar; **Rhonda Dyer**, Publications Assistant; **Terri Edwards**, Operations Staff Assistant; **Karen Perrine**, Staff Attorney.

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# PUBLICATION SCHEDULE AND DEADLINES

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This schedule is available on the *Register's* Internet home page (<http://register.dls.virginia.gov>).

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## January 2013 through January 2014

<u>Volume: Issue</u>	<u>Material Submitted By Noon*</u>	<u>Will Be Published On</u>
29:11	January 9, 2013	January 28, 2013
29:12	January 23, 2013	February 11, 2013
29:13	February 6, 2013	February 25, 2013
29:14	February 20, 2013	March 11, 2013
29:150	March 6, 2013	March 25, 2013
29:16	March 20, 2013	April 8, 2013
29:17	April 3, 2013	April 22, 2013
29:18	April 17, 2013	May 6, 2013
29:19	May 1, 2013	May 20, 2013
29:20	May 15, 2013	June 3, 2013
29:21	May 29, 2013	June 17, 2013
29:22	June 12, 2013	July 1, 2013
29:23	June 26, 2013	July 15, 2013
29:24	July 10, 2013	July 29, 2013
29:25	July 24, 2013	August 12, 2013
29:26	August 7, 2013	August 26, 2013
30:1	August 21, 2013	September 9, 2013
30:2	September 4, 2013	September 23, 2013
30:3	September 18, 2013	October 7, 2013
30:4	October 2, 2013	October 21, 2013
30:5	October 16, 2013	November 4, 2013
30:6	October 30, 2013	November 18, 2013
30:7	November 13, 2013	December 2, 2013
30:8	November 26, 2013 ( <b>Tuesday</b> )	December 16, 2013
30:9	December 11, 2013	December 30, 2013
30:10	December 23, 2013 ( <b>Tuesday</b> )	January 13, 2014
30:11	January 8, 2014	January 27, 2014

\*Filing deadlines are Wednesdays unless otherwise specified.

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# PETITIONS FOR RULEMAKING

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## TITLE 18. AGRICULTURE

### BOARD OF AGRICULTURE AND CONSUMER SERVICES

#### Agency Decision

**Title of Regulation: 2VAC5-670. Rules and Regulations for Enforcement of the Virginia Pesticide Law.**

**Statutory Authority: § 3.2-3906 of the Code of Virginia.**

**Name of Petitioner: H. Ronald Coake.**

**Nature of Petitioner's Request:** The petitioner is requesting that the Board of Agriculture and Consumer Services amend the regulation to prohibit a person from applying, dispensing, or using any pesticide or herbicide on property without written permission from the property owner and without notification of the application that includes the material safety data sheet.

**Agency Decision:** Request denied.

**Statement of Reason for Decision:** The Board of Agriculture and Consumer Services denied the petitioner's request for rulemaking for the following reasons:

1. The requirements that anyone intending to apply pesticides obtain written permission from the property owner in advance of the application and provide the property owner with the Material Data Safety Sheet for the pesticide product(s) being applied would be excessively burdensome to implement and impractical to enforce on the part of the agency, exceedingly expensive to comply on the part of the regulated community, and it would unnecessarily delay and reduce the effectiveness of pesticides, particularly in the case of time-sensitive applications.
2. The investigation of complaints regarding violations of the proposed written permission requirement would be extremely onerous and would divert existing staff and limited resources away from essential inspections and investigations.

**Agency Contact:** Erin Williams, Policy and Planning Coordinator, Department of Agriculture and Consumer Services, Oliver Hill Building, 102 Governor Street, Richmond, VA 23219, telephone (804) 786-1308, or email [erin.williams@vdacs.virginia.gov](mailto:erin.williams@vdacs.virginia.gov).

VA.R. Doc. No. R13-06, Filed December 28, 2012, 3:06 p.m

#### Agency Decision

**Title of Regulation: 2VAC5-680. Regulations Governing Licensing of Pesticide Businesses Operating Under Authority of the Virginia Pesticide Control Act.**

**Statutory Authority: § 3.2-3906 of the Code of Virginia.**

**Name of Petitioner: H. Ronald Coake.**

**Nature of Petitioner's Request:** The petitioner is requesting that the Board of Agriculture and Consumer Services amend the regulation to require the revocation of the business license of any person who applies any pesticide or herbicide on property without written permission from the property owner and without notification to the property owner that includes the material safety data sheet. The petitioner is also requesting that the Board of Agriculture and Consumer Services amend the regulation to include provisions regarding the restoration of property and environmental cleanup.

**Agency Decision:** Request denied.

**Statement of Reason for Decision:** The Board of Agriculture and Consumer Services denied the petitioner's request for rulemaking for the following reasons:

1. The revocation of the license of anyone who fails to obtain written permission from the property owner in advance of a pesticide application or fails to provide the property owner with the Material Data Safety Sheet for the pesticide product(s) being applied would constitute an exceedingly severe penalty for the violation of the proposed requirements which the agency believes to be excessively burdensome and impractical to implement or comply.
2. Enforcing a written permission requirement would be extremely onerous on the agency and would divert existing staff and limited resources away from essential inspections and investigations.
3. The Pesticide Control Act is not the proper mechanism to mandate the environmental remediation or restitution sought in the petition, as other legal means exist to pursue such remedies.

**Agency Contact:** Erin Williams, Policy and Planning Coordinator, Department of Agriculture and Consumer Services, Oliver Hill Building, 102 Governor Street, Richmond, VA 23219, telephone (804) 786-1308, or email [erin.williams@vdacs.virginia.gov](mailto:erin.williams@vdacs.virginia.gov).

VA.R. Doc. No. R13-05, Filed December 28, 2012, 3:07 p.m.

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# NOTICES OF INTENDED REGULATORY ACTION

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## TITLE 12. HEALTH

### STATE BOARD OF BEHAVIORAL HEALTH AND DEVELOPMENTAL SERVICES

#### Notice of Intended Regulatory Action

Notice is hereby given in accordance with § 2.2-4007.01 of the Code of Virginia that the State Board of Behavioral Health and Developmental Services intends to consider promulgating **12VAC35-230, Operation of the Individual and Family Support Program**. The purpose of the proposed action is to establish a support program for (i) individuals who are living in their own homes or a family home and are on the statewide waiting list for Intellectual Disability Medicaid Waiver or the Individual and Family Developmental Disabilities Services Medicaid Waiver and (ii) the family members who are supporting these individuals.

The agency does not intend to hold a public hearing on the proposed action after publication in the Virginia Register.

Statutory Authority: § 37.2-203 of the Code of Virginia.

Public Comment Deadline: February 27, 2013.

Agency Contact: Linda B. Grasewicz, Senior Planner, Department of Behavioral Health and Developmental Services, Jefferson Building, 1220 Bank Street, 12th Floor, Richmond, VA 23219, telephone (804) 786-0040, FAX (804) 371-0092, or email linda.grasewicz@dbhds.virginia.gov.

VA.R. Doc. No. R13-3439; Filed January 15, 2013, 9:38 a.m.

The agency intends to hold a public hearing on the proposed action after publication in the Virginia Register.

Statutory Authority: § 54.1-201 of the Code of Virginia.

Public Comment Deadline: February 27, 2013.

Agency Contact: Eric L. Olson, Executive Director, Board for Contractors, 9960 Mayland Drive, Suite 400, Richmond, VA 23233, telephone (804) 367-2785, FAX (804) 527-4401, or email contractors@dpor.virginia.gov.

VA.R. Doc. No. R13-3533; Filed January 3, 2013, 1:42 p.m.

#### Notice of Intended Regulatory Action

Notice is hereby given in accordance with § 2.2-4007.01 of the Code of Virginia that the Board for Contractors intends to consider amending **18VAC50-30, Individual License and Certification Regulations**. In response to the Governor's regulatory reform initiative, the Board for Contractors will review and amend its current regulations to repeal regulations that are unnecessary or no longer in use and reduce unnecessary regulatory burdens on businesses and other regulated groups.

The proposed amendments will focus solely on a general but comprehensive review of the existing regulations. The review will amend the regulations to (i) eliminate burdensome entry, renewal, and reinstatement standards; (ii) simplify the explanations of requirements; and (iii) ultimately produce regulations that already effectively protect the health, safety, and welfare of the public that will be more easily read and understood by the public.

The agency intends to hold a public hearing on the proposed action after publication in the Virginia Register.

Statutory Authority: § 54.1-201 of the Code of Virginia.

Public Comment Deadline: February 27, 2013.

Agency Contact: Eric L. Olson, Executive Director, Board for Contractors, 9960 Mayland Drive, Suite 400, Richmond, VA 23233, telephone (804) 367-2785, FAX (804) 527-4401, or email contractors@dpor.virginia.gov.

VA.R. Doc. No. R13-3534; Filed January 3, 2013, 1:43 p.m.

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## TITLE 18. PROFESSIONAL AND OCCUPATIONAL LICENSING

### BOARD FOR CONTRACTORS

#### Notice of Intended Regulatory Action

Notice is hereby given in accordance with § 2.2-4007.01 of the Code of Virginia that the Board for Contractors intends to consider amending **18VAC50-22, Board for Contractors Regulations**. In response to the Governor's regulatory reform initiative, the Board for Contractors will review and amend its current regulations to repeal regulations that are unnecessary or no longer in use and reduce unnecessary regulatory burdens on businesses and other regulated groups.

The proposed amendments will focus solely on a general but comprehensive review of the existing regulations. The review will amend the regulations to (i) eliminate burdensome entry, renewal, and reinstatement standards; (ii) simplify the explanations of requirements; and (iii) ultimately produce regulations that already effectively protect the health, safety, and welfare of the public that will be more easily read and understood by the public.

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# REGULATIONS

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For information concerning the different types of regulations, see the Information Page.

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## Symbol Key

Roman type indicates existing text of regulations. Underscored language indicates proposed new text. Language that has been stricken indicates proposed text for deletion. Brackets are used in final regulations to indicate changes from the proposed regulation.

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## TITLE 9. ENVIRONMENT

### VIRGINIA WASTE MANAGEMENT BOARD

#### Final Regulation

REGISTRAR'S NOTICE: The following regulatory action is exempt from the Administrative Process Act in accordance with § 2.2-4006 A 4 c of the Code of Virginia, which excludes regulations that are necessary to meet the requirements of federal law or regulations provided such regulations do not differ materially from those required by federal law or regulation. The Virginia Waste Management Board will receive, consider, and respond to petitions by any interested person at any time with respect to reconsideration or revision.

Title of Regulation: **9VAC20-60. Virginia Hazardous Waste Management Regulations (amending 9VAC20-60-18).**

Statutory Authority: §§ 10.1-1402 and 10.1-1426 of the Code of Virginia; 42 USC § 6921 et seq.; 40 CFR Parts 260-272.

Effective Date: February 28, 2013.

Agency Contact: Debra A. Harris, Department of Environmental Quality, P.O. Box 1105, Richmond, VA 23218, telephone (804) 698-4206, FAX (804) 698-4346, TTY (804) 698-4021, or email [debra.harris@deq.virginia.gov](mailto:debra.harris@deq.virginia.gov).

#### Summary:

*This regulatory amendment brings citations up to date and incorporates the July 1, 2012, update of Title 40 of the Code of Federal Regulations.*

#### **9VAC20-60-18. Applicability of incorporated references based on the dates on which they became effective.**

Except as noted, when a regulation of the United States Environmental Protection Agency set forth in Title 40 of the Code of Federal Regulations is ~~adopted herein~~ referenced and incorporated by reference herein, that regulation shall be as it exists and has been published ~~as a final regulation in the Federal Register prior to July 1, 2011, with the effective date as published in the Federal Register notice or February 15, 2012, whichever is later~~ in the July 1, 2012, update.

VA.R. Doc. No. R13-3384; Filed January 8, 2013, 3:57 p.m.



## TITLE 12. HEALTH

### STATE BOARD OF HEALTH

#### Proposed Regulation

Titles of Regulations: **12VAC5-410. Regulations for the Licensure of Hospitals in Virginia (amending 12VAC5-410-10, 12VAC5-410-60).**

**12VAC5-412. Regulations for Licensure of Abortion Facilities (adding 12VAC5-412-10 through 12VAC5-412-370).**

Statutory Authority: §§ 32.12 and 32.1-127 of the Code of Virginia.

#### Public Hearing Information:

March 7, 2013 -1 p.m., Department of Health, Conference Center, 9960 Mayland Drive, 2nd Floor, Henrico, VA

March 12, 2013 - 1 p.m., John Marshall Public Library, 6209 Rose Hill Drive, Alexandria, VA

Public Comment Deadline: March 29, 2013.

Agency Contact: Erik Bodin, Director, Office of Licensure and Certification, Department of Health, 9960 Mayland Drive, Suite 401, Richmond, VA 23233, telephone (804) 367-2102, FAX (804) 527-4502, or email [erik.bodin@vdh.virginia.gov](mailto:erik.bodin@vdh.virginia.gov).

Basis: Section 32.1-127 of the Code of Virginia, as amended by Chapter 670 of the 2011 Acts of Assembly, mandated the State Board of Health to promulgate emergency regulations. Chapter 670 further authorizes the Board of Health to continue to regulate facilities in which five or more first trimester abortions per month are performed as a category of hospital after the emergency regulations expire. The Board of Health, in accordance with the Administrative Process Act (§ 2.2-2000 et seq. of the Code of Virginia) has been directed to adopt regulations to implement the provisions of the Act that became effective on March 26, 2011. Having adopted the emergency regulations, the board now seeks to make appropriately revised regulations permanent.

Purpose: The intent of this regulatory action is to promote and assure the health and safety of patients who receive first trimester abortion services. The need for these regulations has been extensively and publically articulated over the past several years during the annual sessions of the Virginia General Assembly. The statutory language of § 32.1-127 of the Code of Virginia as amended by Chapter 670 of the 2011 Acts of Assembly mandates that the regulatory action include minimum standards for facilities performing five or more first trimester abortions per month. The standards are required to

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# Regulations

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include those for construction and maintenance, operation, staffing and equipping, qualifications and training of staff, and infection prevention, disaster preparedness, and facility security.

Substance: The majority of the provisions in this regulatory action are currently contained in the emergency regulations. However, some revisions to the provisions of the emergency regulations have been proposed as part of this action. The following is a summary of key provisions of the proposed regulations:

## 1. Definitions.

"Abortion" means the use of an instrument, medicine, drug, or other substance or device with the intent to terminate the pregnancy of a woman, known to be pregnant, for reasons other than a live birth or to remove a dead fetus. Spontaneous miscarriage is excluded from this definition.

"Abortion facility" means a facility in which five or more first trimester abortions per month are performed.

"Administrator" means the person appointed by the governing body as having responsibility for the overall management of the abortion facility. Job titles may include director, executive director, office manager, or business manager.

"First trimester" means the first twelve weeks from conception based on an appropriate clinical estimate by a licensed physician.

"Informed written consent" means the knowing and voluntary written consent to an abortion by a pregnant woman of any age in accordance with § 18.2-76 of the Code of Virginia.

"Licensee" means the person, partnership, corporation, association, organization, or professional entity who owns or on whom rests the ultimate responsibility and authority for the conduct of the abortion facility.

"Minor" means a patient under the age of 18.

"Patient" means any person seeking or obtaining services at an abortion facility.

"Physician" means a person licensed to practice medicine in Virginia.

"Spontaneous miscarriage" means the expulsion or extraction of a product of human conception resulting in other than a live birth and which is not an abortion.

"Trimester" means a 12-week period of pregnancy.

## 2. Procedures for Licensure or License Renewal.

- a. A license is valid for one year.
- b. It is the responsibility of the abortion facility's governing body to maintain a current and accurate license at all times.
- c. The department may deny, suspend or revoke a license.
- d. The commissioner may allow a temporary variance to the regulatory provisions.

e. The commissioner may rescind or modify a temporary variance.

f. VDH has a right of entry to any facility that it believes is performing first trimester abortions without a license.

g. VDH shall make periodic, unannounced onsite inspections not less often than biennially.

h. VDH employees shall properly identify themselves prior to admission to the facility.

i. A list of patients receiving services on the day of the inspection, as well as a list of all the abortion facility's patients for the previous 12 months, shall be provided to the inspector within two hours of arrival if requested.

j. A facility must submit a plan of correction within 15 working days to address any deficiencies.

k. OLC has the responsibility to investigate any complaints regarding violations of the regulations.

l. The facility has the right to contest the denial, revocation, or suspension of a license.

3. Service charges and fees: There is a fee for each new and renewed license as allowed by law.

## 4. Organization and Management.

a. Each facility shall have a governing body.

b. Each facility shall develop, implement, and maintain policies and procedures, including obtaining informed written consent prior to the initiation of any procedures.

c. Policies and procedures shall be based on recognized standards and guidelines.

d. Each facility shall have an administrator and a staff that is adequately trained and capable of providing appropriate service and supervision to patients.

e. Abortions shall be performed by physicians who are licensed to practice medicine in Virginia and who are qualified by training and experience to perform abortion procedures.

f. Clinical privileges of physicians and nonphysician health care practitioners shall be clearly defined.

g. A physician must remain on the premises until all patients are medically stable, must sign the discharge order, and be available and accessible until the last patient is discharged.

h. Licensed health care practitioners trained in post-procedure assessment must remain on the premises until the last patient has been discharged.

i. Each facility shall establish a protocol relating to the rights and responsibilities of patients consistent with the current edition of the Joint Commission Standards of Ambulatory Care.

j. The abortion facility shall establish and maintain complaint handling procedures and any patient seeking an abortion shall be given a copy of the complaint procedures

in language or manner she understands at the time of admission to service.

5. Quality Management and Infection Prevention.

a. The facility shall implement an ongoing assessment program of the quality and appropriateness of care services provided.

b. The facility shall have an infection prevention plan that encompasses the entire facility and all services provided and that is consistent with the provisions of the current edition of "Guide to Infection Prevention in Outpatient Setting: Minimum Expectations for Safe Care," published by the CDC.

6. Patient Care.

a. A physician shall not perform an abortion without first obtaining the informed written consent of the patient pursuant to the provisions of § 18.2-76 of the Code of Virginia.

b. The facility shall offer each patient in a language or manner they understand appropriate counseling and instruction in the abortion procedure and shall develop, implement, and maintain policies and procedures for the provision of family planning and post-abortion counseling to its patients.

c. Prior to the initiation of any procedure, a medical history and physical examination, to include confirmation of pregnancy, and completion of all the requirements of informed written consent, shall be completed for each patient.

d. Use of additional medical testing shall be based on an assessment of patient risk.

e. All tissues removed resulting from the abortion procedure shall be examined to verify that villi or fetal parts are present; if such verification cannot be made with certainty, the tissue specimen shall be sent for further pathological examination.

f. All tissues removed resulting from the abortion procedure shall be managed in accordance with requirements for medical waste pursuant to the Regulated Medical Waste Management Regulations (9VAC20-120).

g. The anesthesia service shall comply with the Office-Based Anesthesia provisions of the Regulations Governing the Practice of Medicine, Osteopathic Medicine, Podiatry, and Chiropractic (18VAC85-20-310 et seq.).

h. The anesthesia service shall be directed by and under the supervision of a physician licensed in Virginia.

i. Elective general anesthesia shall not be used.

j. Controlled substances as defined in the Virginia Drug Control Act, shall be stored, administered, and dispensed in accordance with federal and state laws. The dispensing of drugs shall be in accordance with Regulations Governing the Practice of Pharmacy and Regulations for

Practitioners of the Healing Arts to Sell Controlled Substances.

k. Drugs whose intended use is to induce a termination of pregnancy shall only be prescribed, dispensed, or administered by a physician.

l. A facility shall maintain medical equipment, supplies, and drugs appropriate and adequate to manage potential emergencies based on the level, scope, and intensity of services provided. Such medical equipment, supplies, and drugs shall be determined by the physician and shall be consistent with the current edition of the American Heart Association's guidelines for Advanced Cardiovascular Life Support.

m. An abortion facility shall provide ongoing urgent or emergent care and maintain on the premises adequate monitoring equipment, suction apparatus, oxygen, and related items for resuscitation and control of hemorrhage and other complications.

n. A written agreement shall be executed with a licensed general hospital to ensure that any patient of the abortion facility shall receive needed emergency treatment. When emergency transfer is necessary, the responsible physician at the abortion facility must provide direct communication to the emergency department staff regarding the status of the patient, the procedure details, and the suspected complication. All patients must be provided with contact information for a representative of the abortion facility, so that an emergency department physician or treating provider may make contact with a provider of the facility if late complications arise. (This provision reflects amendments made by the Board of Health at its June 15th, 2012, meeting.)

7. Health Information Records and Reports.

a. An accurate and complete clinical record or chart shall be maintained on each patient.

b. The record or chart shall contain sufficient information to satisfy the diagnosis or need for the medical or surgical service.

c. Provisions shall be made for the safe storage of health records or accurate and eligible reproductions thereof according to applicable federal and state law including HIPAA.

d. The facility shall comply with the fetal death and induced termination of pregnancy reporting provisions in the Board of Health Regulations Governing Vital Records (12VAC5-550-120).

e. The abortion facility shall report to the OLC within 24 hours any patient, staff, or visitor death, any serious injury to a patient, medication errors that necessitate a clinical intervention other than monitoring, a death or significant injury of a patient or staff member resulting from a physical assault that occurs within or on the abortion facility grounds, and any other incident reported to the



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# Regulations

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malpractice insurance carrier or in compliance with the federal Safe Medical Devices Act of 1990.

f. Records that are confidential under federal or state law shall be maintained as confidential by OLC and shall not be further disclosed except as permitted by law.

g. Abortion facilities shall ensure that employees mandated to report suspected child abuse or neglect under § 63.2-1509 of the Code of Virginia comply with the reporting requirements of § 63.2-1509.

## 8. Functional Safety and Maintenance.

a. The facility shall develop, implement, and maintain policies and procedures to ensure safety within the abortion facility and on its grounds and to minimize hazards to all occupants.

b. Each facility shall develop, implement, and maintain policies and procedures to ensure reasonable precautions are taken to protect all occupants from hazards of fire and other disasters.

c. The abortion facility's structure, its component parts and all equipment such as elevators, heating, cooling, ventilation, and emergency lighting, shall be kept in good repair and operating condition.

d. When patient monitoring equipment is utilized, a written preventive maintenance program shall be developed and implemented.

## 9. Design and Construction.

a. Abortion facilities shall comply with state and local codes, zoning, and building ordinances and the Uniform Statewide Building Code. In addition, abortion facilities shall comply with Part 1 and sections 3.1-1 through 3.1-8 and section 3.7 of Part 3 of the 2010 Guidelines for Design and Construction of Health Care Facilities of the Facilities Guidelines Institute, which shall take precedence over the Uniform Statewide Building Code pursuant to § 32.1-127.001 of the Code of Virginia.

b. Entities operating as of the effective date of these regulations as identified by the department through submission of Reports of Induced Termination of Pregnancy pursuant to 12VAC5-550-120 or other means and that are now subject to licensure may be licensed in their current buildings if such entities submit a plan with the application for licensure that will bring them into full compliance with this provision within two years from the date of licensure.

c. In order to determine whether the abortion facility is in compliance with this provision, the commissioner may obtain additional information from the facility or its architect concerning the design and construction of the facility.

This regulatory action also proposes the following amendments to 12VAC5-410 (Regulations for the Licensure of Hospitals in Virginia.)

12VAC5-410-10: The following text is stricken from the definition of outpatient hospital: "Outpatient abortion clinics are deemed a category of outpatient hospitals." Rationale - Abortion facilities will be regulated pursuant to 12VAC5-412, not 12VAC5-410.

12VAC5-410-60: Deletes the term "outpatient abortions" from the provision authorizing VDH to require a hospital to have separate licenses for different types of services. Rationale - Abortion facilities will be regulated pursuant to 12VAC5-412, not 12VAC5-410.

Issues: The primary advantages of the proposed regulatory action to the public are the requirements for health and safety protections at abortion facilities. The primary disadvantage to the public associated with the proposed action is some abortion facilities may need to renovate or relocate their facility in order to comply with the regulations. 12VAC5-410-370 of the proposed regulations allows entities operating as of the effective date of the emergency regulations to be licensed in their current buildings if the abortion facility submits a plan with the application for licensure that will bring the facility into full compliance with the provisions of 12VAC5-410-370 within two years from the date of licensure. The costs of those renovations or relocations might be passed on to the facilities' patients or potentially result in some facilities electing to cease operations at some point in the future. VDH does not foresee any additional disadvantages to the public. The primary advantage to the agency and the Commonwealth is the promotion of public health and safety. There are no disadvantages associated with the proposed regulations in relation to the agency or the Commonwealth.

### Department of Planning and Budget's Economic Impact Analysis:

Summary of the Proposed Amendments to Regulation. Chapter 670 of the 2011 Virginia Acts of Assembly amended and reenacted § 32.1-127 of the Code of Virginia. Chapter 670 (2011) specified that facilities in which five or more first trimester abortions per month are performed shall be classified as a category of hospital and mandated the Board of Health (Board) to adopt regulations governing the licensure of such entities within 280 days of its enactment. For that reason, the Board utilized the emergency rulemaking process authorized by the Administrative Process Act for promulgating emergency regulations and filing a Notice of Intended Regulatory Action.

Following that regulatory action, the Virginia Department of Health (VDH) has developed proposed permanent regulations to replace the emergency regulations upon their expiration. The permanent regulations are necessary to support the implementation of the amendments to § 32.1-127 enacted by Chapter 670 (2011). The proposed regulations contain provisions pertaining to definitions, procedures for initial licensure and license renewal, organization and management, infection prevention, patient care, quality assurance, medical

records and reports, disaster preparedness, facility security, functional safety and maintenance, and design and construction.

Estimated Economic Impact.

Facilities Impact: As stated above, Chapter 670 (2011) specified that facilities in which five or more first trimester abortions per month are performed shall be classified as a category of hospital. The Code of Virginia § 32.1-127.001 requires the Board of Health to promulgate regulations that "include minimum standards for the design and construction of hospitals, nursing homes, and certified nursing facilities consistent with the current edition of the Guidelines for Design and Construction of Hospital and Health Care Facilities issued by the American Institute of Architects Academy of Architecture for Health." Accordingly, the proposed regulations state that "abortion facilities shall comply with Part 1 and sections 3.1-1 through 3.1-8 and section 3.7 of Part 3 of the 2010 Guidelines for Design and Construction of Health Care Facilities of the Facilities Guidelines Institute." These are the particular standards that are relevant to facilities that perform first trimester abortions.

The public benefit of this regulation is to ensure that facilities that regularly perform first trimester abortions adhere to minimum health and safety standards. These standards pertain to organization and management, infection prevention, patient care, quality assurance, medical records and reports, disaster preparedness, facility security, functional safety and maintenance, and design and construction.

Based on a survey conducted by the Department of Health, all but one of the 20 abortion facilities licensed under the emergency regulations has to renovate space and/or purchase equipment to comply with these requirements. The costs for each facility to comply with the requirements differ greatly depending on the size of the facility, and in particular on how close the facility already is in following the Guidelines for Design and Construction of Hospital and Healthcare Facilities. VDH surveyed the facilities for this information and their estimated costs of compliance. One facility already meets the requirements and thus will not incur additional costs. Fifteen of the remaining facilities did provide their own estimates which are as follows: \$75,000, \$87,000, \$118,100, \$180,000, \$200,000, \$200,000, \$250,000, \$300,000, \$300,000, \$328,800, \$376,700, \$400,000, \$734,000, \$5,000,000, and \$6,000,000.

Given the Department of General Services' (DGS) expertise in building design and construction, the Department of Planning and Budget requested that DGS provide their own cost projections. DGS estimates that it costs approximately \$447 per square foot to build a new hospital, and \$200 to \$447 per square foot to convert/renovate existing professional office space to meet hospital standards. Based on a survey, the largest facility which does not already meet the requirements is 12,000 square feet. Using the high end of DGS' estimated range (\$447 per square foot), this indicates

that it could cost up to \$5,364,000 for the largest facility not already in compliance to renovate or build to meet the physical requirements. DGS points out that the \$447 figure does not include land acquisition or demolition costs. Thus, DGS' high-end cost estimate is consistent with the estimates provided by the facilities.

For those clinics that choose to renovate, there will likely be some reduction in operating capacity while the facility is being renovated. The impact of such adjustments cannot be determined.

Administrative Impact: VDH estimates that it will take no more than 16 hours for each facility to comply with the annual reporting, recordkeeping, and other administrative requirements associated with this regulation (including submitting an application, participating in an onsite inspection survey, and developing a plan of correction). Concerning the type of professional skills necessary for preparing required reports and other documents, the proposed regulations specify that each clinic's administrator: 1) ensures the development, implementation, and enforcement of all policies and procedures, including patient rights, 2) employs qualified personnel and ensuring appropriate personnel orientation, training, education, and evaluation, 3) ensures the accuracy of public information materials and activities, 4) ensures an effective budgeting and accounting system is implemented, and 5) maintains compliance with applicable laws and regulations and implementing corrective action.

The proposed regulations allow entities operating as of the effective date of the emergency regulations to be licensed in the facility's current buildings if the facility submits a plan with the application for licensure that will bring the facility into full compliance with the provisions of the proposed regulations within two years from the date of licensure. The existing clinics were licensed over a four month period (in July, August, September, and October 2012). These facilities will need to show full compliance with the building standards two years after their initial licensure, i.e., in July 2014 through October 2014.

Health Department Impact: VDH anticipates that the implementation and enforcement of these regulations will require the addition of two full time medical facility inspector positions at an estimated annual cost of \$145,600. Funds would be non-general fund licensing fees (1%) and general fund (99%) and would be ongoing expenditures. VDH has received additional funding in the 2012 Appropriation Act which will enable it to cover this expense.

Businesses and Entities Affected. The proposed regulations affect the 20 abortion facilities operating in the Commonwealth. Some architectural and construction firms may receive additional demand for their services due to the statutory and regulatory requirements that abortion facilities meet the minimum standards for the design and construction of hospitals.

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# Regulations

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**Localities Particularly Affected.** The 20 abortion facilities operating in the Commonwealth are located in the following localities: Alexandria (2), Blacksburg, Charlottesville (2), Fairfax (2), Falls Church (2), Henrico, Manassas, Newport News, Norfolk (2), Richmond (2), Roanoke (2), and Virginia Beach (2).

**Projected Impact on Employment.** Some architectural and construction firms may receive additional demand for their services due to the statutory and regulatory requirements that abortion facilities meet the minimum standards for the design and construction of hospitals. This may modestly increase employment at these firms.

Employment at abortion facilities may be impaired if these regulations result in any temporary or permanent closures of abortion facilities.

**Effects on the Use and Value of Private Property.** Some architectural and construction firms may receive additional demand for their services due to the statutory and regulatory requirements that abortion facilities meet the minimum standards for the design and construction of hospitals. This may modestly increase the value of these firms. The proposed requirements associated with the new establishment of licensure for abortion facilities increase costs for these entities and could increase the value of these facilities.

**Small Businesses: Costs and Other Effects.** The majority of abortion facilities in operation in the Commonwealth appear to qualify as small businesses. Several others are affiliated with a large nonprofit organization. Based on available information, it appears that the majority of small businesses affected will incur between \$100,000 and \$400,000 in construction and equipment costs. For those clinics which choose to renovate, there will likely be some reduction in operating capacity while the facility is being renovated. The clinic may have to find other temporary quarters during the construction work, or temporarily not offer services.

VDH estimates that it will take no more than 16 hours for each facility to comply with the annual reporting, recordkeeping, and other administrative requirements associated with this regulation (including submitting an application, participating in an onsite inspection survey, and developing a plan of correction). Concerning the type of professional skills necessary for preparing required reports and other documents, the proposed regulations specify that each clinic's administrator: 1) ensures the development, implementation, and enforcement of all policies and procedures, including patient rights, 2) employs qualified personnel and ensuring appropriate personnel orientation, training, education, and evaluation, 3) ensures the accuracy of public information materials and activities, 4) ensures an effective budgeting and accounting system is implemented, and 5) maintains compliance with applicable laws and regulations and implementing corrective action. Finally, there is a \$75 annual licensure fee for each facility.

**Small Businesses: Alternative Method that Minimizes Adverse Impact.** Chapter 670 (2011) is specific in stating the design requirements of these regulations; thus, there is no apparent method that both minimizes the adverse impact to small businesses (abortion facilities) and still complies with the Code of Virginia.

**Real Estate Development Costs.** The statutory and regulatory requirements that abortion facilities meet the minimum standards for the design and construction of hospitals increase real estate development costs for these clinics. Facility renovation and equipment costs for the majority of these clinics will be less than \$400,000. For at least three facilities, the costs will likely be less than \$100,000. For two facilities, meeting the proposed requirements will cost several million dollars. The costs depend upon the facility's square footage and how close it currently is in following the Guidelines for Design and Construction of Hospital and Healthcare Facilities. One facility already meets the requirements and will accordingly not incur additional costs.

**Legal Mandate.** The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with § 2.2-4007.04 of the Administrative Process Act and Executive Order Number 14 (10). Section 2.2-4007.04 requires that such economic impact analyses include, but need not be limited to, a determination of the public benefit, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has an adverse effect on small businesses, § 2.2-4007.04 requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. A small business is defined in § 2.2-4007.1 of the Code of Virginia as "a business entity, including its affiliates, that (i) is independently owned and operated and (ii) employs fewer than 500 full-time employees or has gross annual sales of less than \$6 million." The analysis presented above represents DPB's best estimate of these economic impacts.

**Agency Response to Economic Impact Analysis:** The Virginia Department of Health (VDH) has reviewed the economic impact analysis prepared by the Department of Planning and Budget dated November 21, 2012, and subsequently revised on January 7, 2013, based on additional

information provided by the agency. VDH concurs with the Department of Planning and Budget's Economic Impact Analysis for the proposed Regulations for the Licensure of Abortion Facilities. Given the addition of more up-to-date information the revised cost estimate is not inconsistent with the initial estimate made by VDH.

Summary:

*The proposed regulations are necessary to support the implementation of the amendments to § 32.1-127 of the Code of Virginia enacted by Chapter 670 of the 2011 Acts of Assembly. Pursuant to Chapter 670 of the 2011 Acts of Assembly, the proposed regulations establish licensure requirements for facilities performing five or more first trimester abortions per month. For purposes of licensure, these facilities are classified as a category of hospital. The proposed regulations contain provisions pertaining to definitions, procedures for licensure or license renewal, organization and management, infection prevention, patient care, quality assurance, medical records and reports, disaster preparedness, facility security, functional safety and maintenance, and design and construction.*

Part I

Definitions and General Information and Procedures

Article 1

Definitions

**12VAC5-410-10. Definitions.**

As used in this chapter, the following words and terms shall have the following meanings unless the context clearly indicates otherwise:

"Board" means the State Board of Health.

"Chief executive officer" means a job descriptive term used to identify the individual appointed by the governing body to act in its behalf in the overall management of the hospital. Job titles may include administrator, superintendent, director, executive director, president, vice-president, and executive vice-president.

"Commissioner" means the State Health Commissioner.

"Consultant" means one who provides services or advice upon request.

"Department" means an organized section of the hospital.

"Direction" means authoritative policy or procedural guidance for the accomplishment of a function or activity.

"Facilities" means building(s), equipment, and supplies necessary for implementation of services by personnel.

"Full-time" means a 37-1/2 to 40 hour work week.

"General hospital" means institutions as defined by § 32.1-123 of the Code of Virginia with an organized medical staff; with permanent facilities that include inpatient beds; and with medical services, including physician services, dentist services and continuous nursing services, to provide diagnosis and treatment for patients who have a variety of medical and

dental conditions that may require various types of care, such as medical, surgical, and maternity.

"Home health care department/service/program" means a formally structured organizational unit of the hospital that is designed to provide health services to patients in their place of residence and meets Part II (12VAC5-381-150 et seq.) of the regulations adopted by the board for the licensure of home care organizations in Virginia.

"Medical" means pertaining to or dealing with the healing art and the science of medicine.

"Nursing care unit" means an organized jurisdiction of nursing service in which nursing services are provided on a continuous basis.

"Nursing home" means an institution or any identifiable component of any institution as defined by § 32.1-123 of the Code of Virginia with permanent facilities that include inpatient beds and whose primary function is the provision, on a continuing basis, of nursing and health related services for the treatment of patients who may require various types of long term care, such as skilled care and intermediate care.

"Nursing services" means patient care services pertaining to the curative, palliative, restorative, or preventive aspects of nursing that are prepared or supervised by a registered nurse.

"Office of Licensure and Certification" or "OLC" means the Office of Licensure and Certification of the Virginia Department of Health.

"Organized" means administratively and functionally structured.

"Organized medical staff" means a formal organization of physicians and dentists with the delegated responsibility and authority to maintain proper standards of medical care and to plan for continued betterment of that care.

"Outpatient hospital" means institutions as defined by § 32.1-123 of the Code of Virginia that primarily provide facilities for the performance of surgical procedures on outpatients. Such patients may require treatment in a medical environment exceeding the normal capability found in a physician's office, but do not require inpatient hospitalization. ~~Outpatient abortion clinics are deemed a category of outpatient hospitals.~~

"Ownership/person" means any individual, partnership, association, trust, corporation, municipality, county, governmental agency, or any other legal or commercial entity that owns or controls the physical facilities and/or manages or operates a hospital.

"Rural hospital" means any general hospital in a county classified by the federal Office of Management and Budget (OMB) as rural, any hospital designated as a critical access hospital, any general hospital that is eligible to receive funds under the federal Small Rural Hospital Improvement Grant Program, or any general hospital that notifies the commissioner of its desire to retain its rural status when that

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# Regulations

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hospital is in a county reclassified by the OMB as a metropolitan statistical area as of June 6, 2003.

"Service" means a functional division of the hospital. Also used to indicate the delivery of care.

"Special hospital" means institutions as defined by § 32.1-123 of the Code of Virginia that provide care for a specialized group of patients or limit admissions to provide diagnosis and treatment for patients who have specific conditions (e.g., tuberculosis, orthopedic, pediatric, maternity).

"Special care unit" means an appropriately equipped area of the hospital where there is a concentration of physicians, nurses, and others who have special skills and experience to provide optimal medical care for patients assigned to the unit.

"Staff privileges" means authority to render medical care in the granting institution within well-defined limits, based on the individual's professional license and the individual's experience, competence, ability, and judgment.

"Unit" means a functional division or facility of the hospital.

## **12VAC5-410-60. Separate license.**

A. A separate license shall be required by hospitals maintained on separate premises even though they are operated under the same management. Separate license is not required for separate buildings on the same grounds or within the same complex of buildings.

B. Hospitals which have separate organized sections, units, or buildings to provide services of a classification covered by provisions of other state statutes or regulations may be required to have an additional applicable license for that type or classification of service (e.g., psychiatric, nursing home, home health services, and outpatient surgery, outpatient abortions) surgery).

## CHAPTER 412

### REGULATIONS FOR LICENSURE OF ABORTION FACILITIES

#### Part I

#### Definitions and Requirements for Licensure

### **12VAC5-412-10. Definitions.**

The following words and terms when used in this regulation shall have the following meanings unless the context clearly indicates otherwise:

"Abortion" means the use of an instrument, medicine, drug, or other substance or device with the intent to terminate the pregnancy of a woman, known to be pregnant, for reasons other than a live birth or to remove a dead fetus. Spontaneous miscarriage is excluded from this definition.

"Abortion facility" means a facility in which five or more first trimester abortions per month are performed.

"Administrator" means the person appointed by the governing body as having responsibility for the overall management of the abortion facility. Job titles may include

director, executive director, office manager, or business manager.

"Commissioner" means the State Health Commissioner.

"Department" means the Virginia Department of Health.

"First trimester" means the first 12 weeks from conception based on an appropriate clinical estimate by a licensed physician.

"Informed written consent" means the knowing and voluntary written consent to abortion by a pregnant woman of any age in accordance with § 18.2-76 of the Code of Virginia.

"Licensee" means the person, partnership, corporation, association, organization, or professional entity who owns or on whom rests the ultimate responsibility and authority for the conduct of the abortion facility.

"Minor" means a patient under the age of 18.

"Patient" means any person seeking or obtaining services at an abortion facility.

"Physician" means a person licensed to practice medicine in Virginia.

"Spontaneous miscarriage" means the expulsion or extraction of a product of human conception resulting in other than a live birth and which is not an abortion.

"Trimester" means a 12-week period of pregnancy.

### **12VAC5-412-20. General.**

A license to establish or operate an abortion facility shall be issued only (i) when the abortion facility is in compliance with all applicable federal, state, and local statutes and regulations and the provisions of this chapter and (ii) when the application fee has been received by the department.

No person or entity shall establish, conduct, maintain, or operate in this state, any abortion facility without having obtained a license. Any person establishing, conducting, maintaining, or operating an abortion facility without a license shall be subject to penalties and other actions pursuant to § 32.1-27 of the Code of Virginia.

### **12VAC5-412-30. Classification.**

Abortion facilities shall be classified as a category of hospital.

### **12VAC5-412-40. Separate license.**

An abortion facility operating at more than one location shall be required to obtain separate licenses for each location in which abortion services are provided.

Abortion facilities which have separate organized sections, units, or buildings to provide services of a classification covered by provisions of other state statutes or regulations shall be required to have any additional applicable license required for that type or classification of service.

Facilities licensed as either a general hospital or an outpatient surgical hospital by the department are not subject to the provisions of this chapter.

**12VAC5-412-50. Request for issuance.**

A. Abortion facility licenses shall be issued by the commissioner. All applications for licensure shall be submitted initially to the department's Office of Licensure and Certification (OLC).

B. Each abortion facility shall be designated by a distinct identifying name which shall appear on the application for licensure. Any change of name shall be reported to the OLC within 30 days.

C. Application for initial licensure of an abortion facility shall be accompanied by a copy of the abortion facility's certificate of use and occupancy or a statement from the facility's certified architect or engineer that the facility is substantially complete and eligible for a certificate of occupancy.

D. The OLC shall consider an application complete when all requested information and the appropriate nonrefundable application fee are submitted.

E. Written notification from the applicant to OLC that it is ready for the on-site survey must be received 30 days prior to OLC scheduling of the initial licensure survey. Applicants for initial licensure shall be notified of the time and date of the initial licensure survey, after the notice of readiness is received by the OLC.

F. A license shall not be assigned or transferred. A new application for licensure shall be made at least 30 days in advance of a change of ownership or location.

**12VAC5-412-60. License expiration and renewal.**

A. Licenses shall expire at midnight April 30 following the date of issue and shall be renewable annually, upon filing of a renewal application and payment of the appropriate nonrefundable renewal application fee. Renewal applications shall only be granted after a determination by the OLC that the applicant is in substantial compliance with this chapter.

B. The annual license renewal application shall be submitted to the OLC at least 60 days prior to the expiration date of the current license. A renewal application submitted more than 60 days past the expiration of the current license shall not be accepted.

C. Any abortion facility failing to submit an acceptable plan of correction as required in 12VAC5-412-110 shall not be eligible for license renewal.

**12VAC5-412-70. Return and/or reissuance of license.**

A. It is the responsibility of the abortion facility's governing body to maintain a current and accurate license at all times.

B. An abortion facility shall give written notification 30 calendar days in advance of implementing any of the following planned changes:

1. Change of location.
2. Change of ownership.
3. Change of name.

4. Voluntary closure.

5. Change of administrator.

6. Change of operator.

Notices shall be sent to the attention of the director of the OLC.

C. The license issued by the commissioner shall be returned to the OLC when any of the changes listed in subsection B of this section occur. In addition, if the abortion facility is no longer operational, or the license has been suspended or revoked, the license shall be returned to the OLC within five calendar days of the abortion facility closing. The abortion facility's patients and the OLC shall be notified where all patient records will be located.

D. The OLC shall determine if any changes affect the terms of the license or the continuing eligibility for a license. A licensing representative may inspect the abortion facility during the process of evaluating a change.

E. The abortion facility will be notified in writing by the OLC whether a license can be reissued or a new application is needed.

**12VAC5-412-80. Allowable variances.**

A. The commissioner may authorize a temporary variance only to a specific provision of this chapter. In no event shall a temporary variance exceed the term of the license. An abortion facility may request a temporary variance to a particular standard or requirement contained in a particular provision of this chapter when the standard or requirement poses an impractical hardship unique to the abortion facility and when a temporary variance to it would not endanger the safety or well-being of patients. The request for a temporary variance shall describe how compliance with the current standard or requirement constitutes an impractical hardship unique to the abortion facility. The request should include proposed alternatives, if any, to meet the purpose of the standard or requirement that will ensure the protection and well-being of patients. At no time shall a temporary variance be extended to general applicability. The abortion facility may withdraw a request for a temporary variance at any time.

B. The commissioner may rescind or modify a temporary variance if: (i) conditions change; (ii) additional information becomes known that alters the basis for the original decision; (iii) the abortion facility fails to meet any conditions attached to the temporary variance; or (iv) results of the temporary variance jeopardize the safety or well-being of patients.

C. Consideration of a temporary variance is initiated when a written request is submitted to the commissioner. The commissioner shall notify the abortion facility in writing of the receipt of the request for a temporary variance. The licensee shall be notified in writing of the commissioner's decision on the temporary variance request. If granted, the commissioner may attach conditions to a temporary variance to protect the safety and well-being of patients.

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# Regulations

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D. If a temporary variance is denied, expires, or is rescinded, routine enforcement of the standard or requirement to which the temporary variance was granted shall be resumed.

## **12VAC5-412-90. Right of entry.**

Pursuant to § 32.1-25 of the Code of Virginia, any duly designated employee of the Virginia Department of Health shall have the right to enter upon and into the premises of any licensed abortion facility, or any entity the department has reason to believe is operated or maintained as an abortion facility without a license, in order to determine the state of compliance with the provisions of this chapter and applicable laws. Any such employee shall properly identify himself as an inspector designated by OLC; the abortion facility may verify the identity of the inspector prior to his admission. Such entries and inspections shall be made with the permission of the owner or person in charge, unless an inspection warrant is obtained after denial of entry from an appropriate circuit court. If the owner, or person in charge, refuses entry, this shall be sufficient cause for immediate revocation or suspension of the license. If the entity is unlicensed, the owner or person in charge shall be subject to penalties and other actions pursuant to § 32.1-27 of the Code of Virginia.

## **12VAC5-412-100. On-site inspection.**

A. An OLC representative shall make periodic unannounced on-site inspections of each abortion facility as necessary, but not less often than biennially. If the department finds, after inspection, noncompliance with any provision of this chapter, the abortion facility shall receive a written licensing report of such findings. The abortion facility shall submit a written plan of correction in accordance with provisions of 12VAC5-412-110.

B. The abortion facility shall make available to the OLC's representative any requested records and shall allow access to interview the agents, employees, contractors, and any person under the abortion facility's control, direction, or supervision. If copies of records are removed from the premises, patient names and addresses contained in such records shall be redacted by the abortion facility before removal.

C. If the OLC's representative arrives on the premises to conduct a survey and the administrator, the nursing director, or a person authorized to give access to patient records is not available on the premises, such person or the designated alternate shall be available on the premises within one hour of the surveyor's arrival. A list of patients receiving services on the day of the survey as well as a list of all of the abortion facility's patients for the previous 12 months shall be provided to the surveyor within two hours of arrival if requested. Failure to be available or to respond shall be grounds for penalties in accordance with § 32.1-27 of the Code of Virginia and denial, suspension, or revocation of the facility's license in accordance with 12VAC5-412-130.

## **12VAC5-412-110. Plan of correction.**

A. Upon receipt of a written licensing report, each abortion facility shall prepare a written plan of correction addressing each licensing violation cited at the time of inspection.

B. The administrator shall submit, within 15 working days of receipt of the inspection report, an acceptable plan of correction as determined by the OLC. The plan of correction shall contain for each violation cited:

1. A description of the corrective action or actions to be taken and the personnel to implement the corrective action;
2. The expected correction date, not to exceed 30 working days from the exit date of the survey;
3. A description of the measures implemented to prevent a recurrence of the violation; and
4. The signature of the person responsible for the validity of the report.

C. The administrator shall be notified whenever any item in the plan of correction is determined to be unacceptable. Failure to submit an acceptable plan of correction may result in a penalty in accordance with § 32.1-27 of the Code of Virginia or in denial, revocation, or suspension of a license in accordance with 12VAC5-412-130.

D. The administrator shall be responsible for assuring the plan of correction is implemented and monitored so that compliance is maintained.

## **12VAC5-412-120. OLC complaint investigations.**

A. The OLC shall investigate any complaints regarding alleged violations of this chapter and applicable law. When the investigation is complete, the abortion facility and the complainant, if known, will be notified of the findings of the investigation.

B. As required by the OLC, the administrator shall submit a plan of correction for any deficiencies found during a complaint investigation in accordance with 12VAC5-412-110 and shall be responsible for assuring the plan of correction is implemented and monitored so that compliance is maintained.

## **12VAC5-412-130. Violation of this chapter or applicable law; denial, revocation, or suspension of license.**

A. When the department determines that an abortion facility is (i) in violation of any provision of Article 1 (§ 32.1-123 et seq.) of Chapter 5 of Title 32.1 of the Code of Virginia or of any applicable regulation, or (ii) is permitting, aiding, or abetting the commission of any illegal act in the abortion facility, the department may deny, suspend, or revoke the license to operate an abortion facility in accordance with § 32.1-135 of the Code of Virginia.

B. If a license or certification is revoked as herein provided, a new license or certification may be issued by the commissioner after satisfactory evidence is submitted to him that the conditions upon which revocation was based have been corrected and after proper inspection has been made and compliance with all provisions of Article 1 of Chapter 5 of

Title 32.1 of the Code of Virginia and applicable state and federal law and regulations hereunder has been obtained.

C. Suspension of a license shall in all cases be for an indefinite time. The commissioner may restore a suspended license when he determines that the conditions upon which suspension was based have been corrected and that the interests of the public will not be jeopardized by resumption of operation. No additional fee shall be required for restoring such license.

D. The abortion facility has the right to contest the denial, revocation, or suspension of a license in accordance with the provisions of the Administrative Process Act (§ 2.2-4000 et seq. of the Code of Virginia).

## Part II Organization and Management

### **12VAC5-412-140. Management and administration.**

A. The abortion facility shall comply with:

1. This chapter (12VAC5-412);
2. Other applicable federal, state, or local laws and regulations; and
3. The abortion facility's policies and procedures.

B. The abortion facility shall submit or make available reports and information necessary to establish compliance with this chapter and applicable law.

C. The abortion facility shall permit OLC inspectors to conduct inspections to:

1. Verify application information;
2. Determine compliance with this chapter and applicable law;
3. Review necessary records and documents; and
4. Investigate complaints.

D. An abortion facility shall give written notification 30 calendar days in advance of implementing any of the following planned changes:

1. Change of location.
2. Change of ownership.
3. Change of name.
4. Voluntary closure.
5. Change of administrator.
6. Change of operator.

Notices shall be sent to the attention of the director of the OLC.

E. The current license from the department shall be posted at all times in a place readily visible and accessible to the public.

### **12VAC5-412-150. Governing body.**

A. Each abortion facility shall have a governing body responsible for the management and control of the operation of the abortion facility.

B. There shall be disclosure of abortion facility ownership. Ownership interest shall be reported to the OLC and in the case of corporations, all individuals or entities holding 5.0% or more of total ownership shall be identified by name and address. The OLC shall be notified of any changes in ownership.

C. The governing body shall provide facilities, personnel, and other resources necessary to meet patient and program needs.

D. The governing body shall have a formal organizational plan with written bylaws. These shall clearly set forth organization, duties and responsibilities, accountability, and relationships of professional staff and other personnel. The bylaws shall identify the person or organizational body responsible for formulating policies.

E. The bylaws shall include at a minimum the following:

1. A statement of purpose;
2. Description of the functions and duties of the governing body or other legal authority;
3. A statement of authority and responsibility delegated to the administrator and to the clinical staff;
4. Provision for selection and appointment of clinical staff and granting of clinical privileges; and
5. Provision of guidelines for relationships among the governing body, the administrator, and the clinical staff.

### **12VAC5-412-160. Policies and procedures.**

A. Each abortion facility shall develop, implement, and maintain documented policies and procedures, which shall be readily available on the premises and shall be reviewed annually and updated as necessary by the governing body. The policies and procedures shall include but shall not be limited to the following topics:

1. Personnel;
2. Types of elective services performed in the abortion facility;
3. Types of anesthesia that may be used;
4. Admissions and discharges, including criteria for evaluating the patient before admission and before discharge;
5. Obtaining informed written consent of the patient pursuant to § 18.2-76 of the Code of Virginia prior to the initiation of any procedures;
6. When to use sonography to assess patient risk;
7. Infection prevention;
8. Quality and risk management;
9. Management and effective response to medical and/or surgical emergency;
10. Management and effective response to fire;
11. Ensuring compliance with all applicable federal, state, and local laws;



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# Regulations

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12. Abortion facility security;

13. Disaster preparedness;

14. Patient rights;

15. Functional safety and abortion facility maintenance; and

16. Identification of the administrator and methods established by the governing body for holding the administrator responsible and accountable.

B. These policies and procedures shall be based on recognized standards and guidelines. A copy of the policies and procedures approved by the governing body and revisions thereto shall be made available to the OLC upon request.

## **12VAC5-412-170. Administrator.**

A. The governing body shall select an administrator who shall be responsible for the managerial, operational, financial, and reporting components of the abortion facility, including but not limited to:

1. Ensuring the development, implementation, and enforcement of all policies and procedures, including patient rights;

2. Employing qualified personnel and ensuring appropriate personnel orientation, training, education, and evaluation;

3. Ensuring the accuracy of public information materials and activities;

4. Ensuring an effective budgeting and accounting system is implemented; and

5. Maintaining compliance with applicable laws and regulations and implementing corrective action.

B. Any change in the position of the administrator shall be reported immediately by the governing body to the department in writing.

C. A qualified individual shall be appointed in writing to act in the absence of the administrator.

## **12VAC5-412-180. Personnel.**

A. Each abortion facility shall have a staff that is adequately trained and capable of providing appropriate service and supervision to patients. The abortion facility shall develop, implement, and maintain policies and procedures to ensure and document appropriate staffing by licensed clinicians based on the level, intensity, and scope of services provided.

B. The abortion facility shall obtain written applications for employment from all staff. The abortion facility shall obtain and verify information on the application as to education, training, experience, and appropriate professional licensure, if applicable.

C. Each abortion facility shall obtain a criminal history record check pursuant to § 32.1-126.02 of the Code of Virginia on any compensated employee not licensed by the Board of Pharmacy, whose job duties provide access to controlled substances within the abortion facility.

D. The abortion facility shall develop, implement, and maintain policies and procedures to document that its staff participate in initial and ongoing training and education that is directly related to staff duties and appropriate to the level, intensity, and scope of services provided. This shall include documentation of annual participation in fire safety and infection prevention in-service training.

E. Job descriptions.

1. Written job descriptions that adequately describe the duties of every position shall be maintained.

2. Each job description shall include position title, authority, specific responsibilities, and minimum qualifications.

3. Job descriptions shall be reviewed at least annually, kept current, and given to each employee and volunteer when assigned to the position and when revised.

F. A personnel file shall be maintained for each staff member. The records shall be completely and accurately documented, readily available, including by electronic means and systematically organized to facilitate the compilation and retrieval of information. The file shall contain a current job description that reflects the individual's responsibilities and work assignments, and documentation of the person's in-service education, and professional licensure, if applicable.

G. Personnel policies and procedures shall include, but not be limited to:

1. Written job descriptions that specify authority, responsibility, and qualifications for each job classification;

2. Process for verifying current professional licensing or certification and training of employees or independent contractors;

3. Process for annually evaluating employee performance and competency;

4. Process for verifying that contractors and their employees meet the personnel qualifications of the abortion facility; and

5. Process for reporting licensed and certified health care practitioners for violations of their licensing or certification standards to the appropriate board within the Department of Health Professions.

H. A personnel file shall be maintained for each staff member. Personnel record information shall be safeguarded against loss and unauthorized use. Employee health related information shall be maintained separately within the employee's personnel file.

## **12VAC5-412-190. Clinical staff.**

A. Physicians and nonphysician health care practitioners shall constitute the clinical staff. Clinical privileges of physician and nonphysician health care practitioners shall be clearly defined.

B. Abortions shall be performed by physicians who are licensed to practice medicine in Virginia and who are qualified by training and experience to perform abortions. The abortion facility shall develop, implement, and maintain policies and procedures to ensure and document that abortions that occur in the abortion facility are only performed by physicians who are qualified by training and experience.

C. A physician shall remain on the premises until all patients are medically stable, sign the discharge order, and be readily available and accessible until the last patient is discharged. Licensed health care practitioners trained in post-procedure assessment shall remain on the premises until the last patient has been discharged. The physician shall give a discharge order after assessing a patient or receiving a report from such trained health care practitioner indicating that a patient is safe for discharge. The abortion facility shall develop, implement, and maintain policies and procedures that ensure there is an appropriate evaluation of medical stability prior to discharge of the patient and that adequate trained health care practitioners remain with the patient until she is discharged from the abortion facility.

D. Licensed practical nurses, working under direct supervision and direction of a physician or a registered nurse, may be employed as components of the clinical staff.

#### **12VAC5-412-200. Patients' rights.**

A. Each abortion facility shall establish a protocol relating to the rights and responsibilities of patients consistent with the current edition of the Joint Commission Standards of Ambulatory Care. The protocol shall include a process reasonably designed to inform patients of their rights and responsibilities, in a language or manner they understand. Patients shall be given a copy of their rights and responsibilities upon admission.

B. The abortion facility shall establish and maintain complaint handling procedures which specify the:

1. System for logging receipt, investigation, and resolution of complaints; and
2. Format of the written record of the findings of each complaint investigated.

C. The abortion facility shall designate staff responsible for complaint resolution, including:

1. Complaint intake, including acknowledgment of complaints;
2. Investigation of the complaint;
3. Review of the investigation findings and resolution for the complaint; and
4. Notification to the complainant of the proposed resolution within 30 days from the date of receipt of the complaint.

D. Any patient seeking an abortion shall be given a copy of the complaint procedures, in a language or manner she understands, at the time of admission to service.

E. The abortion facility shall provide each patient or her designee with the name, mailing address, and telephone number of the:

1. Abortion facility contact person; and
2. OLC Complaint Unit, including the toll-free complaint hotline number. Patients may submit complaints anonymously to the OLC. The abortion facility shall display a copy of this information in a conspicuous place.

F. The abortion facility shall maintain documentation of all complaints received and the status of each complaint from date of receipt through its final resolution. Records shall be maintained for no less than three years.

### Part III

#### Quality Management and Infection Prevention

#### **12VAC5-412-210. Quality management.**

A. The abortion facility shall implement an ongoing, comprehensive, integrated, self-assessment program of the quality and appropriateness of care or services provided, including services provided under contract or agreement. The program shall include process design, data collection/analysis, assessment and improvement, and evaluation. The findings shall be used to correct identified problems and revise policies and practices, as necessary.

B. The following shall be evaluated to assure adequacy and appropriateness of services, and to identify unacceptable or unexpected trends or occurrences:

1. Staffing patterns and performance;
2. Supervision appropriate to the level of service;
3. Patient records;
4. Patient satisfaction;
5. Complaint resolution;
6. Infections, complications, and other adverse events; and
7. Staff concerns regarding patient care.

C. A quality improvement committee responsible for the oversight and supervision of the program shall be established and at a minimum shall consist of:

1. A physician;
2. A nonphysician health care practitioner;
3. A member of the administrative staff; and
4. An individual with demonstrated ability to represent the rights and concerns of patients. The individual may be a member of the facility's staff.

In selecting members of this committee, consideration shall be given to the candidate's abilities and sensitivity to issues relating to quality of care and services provided to patients.

D. Measures shall be implemented to resolve problems or concerns that have been identified.

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# Regulations

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E. Results of the quality improvement program shall be reported to the licensee at least annually and shall include the deficiencies identified and recommendations for corrections and improvements. The report shall be acted upon by the governing body and the facility. All corrective actions shall be documented. Identified deficiencies that jeopardize patient safety shall be reported immediately in writing to the licensee by the quality improvement committee.

## **12VAC5-412-220. Infection prevention.**

A. The abortion facility shall have an infection prevention plan that encompasses the entire abortion facility and all services provided, and which is consistent with the provisions of the current edition of "Guide to Infection Prevention in Outpatient Settings: Minimum Expectations for Safe Care," published by the U.S. Centers for Disease Control and Prevention. An individual with training and expertise in infection prevention shall participate in the development of infection prevention policies and procedures and shall review them to assure they comply with applicable regulations and standards.

1. The process for development, implementation, and maintenance of infection prevention policies and procedures and the regulations or guidance documents on which they are based shall be documented.

2. All infection prevention policies and procedures shall be reviewed at least annually by the administrator and appropriate members of the clinical staff. The annual review process and recommendations for changes/updates shall be documented in writing.

3. A designated person in the abortion facility shall have received training in basic infection prevention, and shall also be involved in the annual review.

B. Written infection prevention policies and procedures shall include, but not be limited to:

1. Procedures for screening incoming patients and visitors for acute infectious illnesses and applying appropriate measures to prevent transmission of community-acquired infection within the abortion facility;

2. Training of all personnel in proper infection prevention techniques;

3. Correct hand-washing technique, including indications for use of soap and water and use of alcohol-based hand rubs;

4. Use of standard precautions;

5. Compliance with blood-borne pathogen requirements of the U.S. Occupational Safety and Health Administration;

6. Use of personal protective equipment;

7. Use of safe injection practices;

8. Plans for annual retraining of all personnel in infection prevention methods;

9. Procedures for monitoring staff adherence to recommended infection prevention practices; and

10. Procedures for documenting annual retraining of all staff in recommended infection prevention practices.

C. Written policies and procedures for the management of the abortion facility, equipment, and supplies shall address the following:

1. Access to hand-washing equipment and adequate supplies (e.g., soap, alcohol-based hand rubs, disposable towels or hot air driers);

2. Availability of utility sinks, cleaning supplies, and other materials for cleaning, disposal, storage, and transport of equipment and supplies;

3. Appropriate storage for cleaning agents (e.g., locked cabinets or rooms for chemicals used for cleaning) and product-specific instructions for use of cleaning agents (e.g., dilution, contact time, management of accidental exposures);

4. Procedures for handling, storing, and transporting clean linens, clean/sterile supplies, and equipment;

5. Procedures for handling/temporary storage/transport of soiled linens;

6. Procedures for handling, storing, processing, and transporting regulated medical waste in accordance with applicable regulations;

7. Procedures for the processing of each type of reusable medical equipment between uses on different patients. The procedure shall address: (i) the level of cleaning/disinfection/sterilization to be used for each type of equipment; (ii) the process (e.g., cleaning, chemical disinfection, heat sterilization); and (iii) the method for verifying that the recommended level of disinfection/sterilization has been achieved. The procedure shall reference the manufacturer's recommendations and any applicable state or national infection control guidelines;

8. Procedures for appropriate disposal of nonreusable equipment;

9. Policies and procedures for maintenance/repair of equipment in accordance with manufacturer recommendations;

10. Procedures for cleaning of environmental surfaces with appropriate cleaning products;

11. An effective pest control program, managed in accordance with local health and environmental regulations; and

12. Other infection prevention procedures necessary to prevent/control transmission of an infectious agent in the abortion facility as recommended or required by the department.

D. The abortion facility shall have an employee health program that includes:

1. Access to recommended vaccines;

2. Procedures for assuring that employees with communicable diseases are identified and prevented from work activities that could result in transmission to other personnel or patients;

3. An exposure control plan for blood borne pathogens;

4. Documentation of screening and immunizations offered/received by employees in accordance with statute, regulation, or recommendations of public health authorities, including documentation of screening for tuberculosis and access to hepatitis B vaccine; and

5. Compliance with requirements of the U.S. Occupational Safety and Health Administration for reporting of workplace-associated injuries or exposure to infection.

E. The abortion facility shall develop, implement, and maintain policies and procedures for the following patient education, follow up, and reporting activities:

1. A procedure for surveillance, documentation, and tracking of reported infections; and

2. Policies and procedures for reporting conditions to the local health department in accordance with the Regulations for Disease Reporting and Control (12VAC5-90), including outbreaks of disease.

**Part IV**

**Patient Care Management**

**12VAC5-412-230. Patient services; patient counseling.**

A. Abortions performed in abortion facilities shall be performed only on patients who are within the first trimester of pregnancy based on an appropriate clinical estimate by a licensed physician.

B. No person may perform an abortion upon an unemancipated minor unless informed written consent is obtained from the minor and the minor's parent, guardian, or other authorized person. If the unemancipated minor elects not to seek the informed written consent of an authorized person, a copy of the court order authorizing the abortion entered pursuant to § 16.1-241 of the Code of Virginia shall be obtained prior to the performance of the abortion.

C. A physician shall not perform an abortion without first obtaining the informed written consent of the patient pursuant to the provisions of § 18.2-76 of the Code of Virginia.

D. When abortions are being performed, a staff member currently certified to perform cardio-pulmonary resuscitation shall be available on site for emergency care.

E. The abortion facility shall offer each patient seeking an abortion, in a language or manner she understands, appropriate counseling and instruction in the abortion procedure and shall develop, implement, and maintain policies and procedures for the provision of family planning and post-abortion counseling to its patients.

F. There shall be an organized discharge planning process that includes an evaluation of the patient's capacity for self-

care and discharge instructions for patients to include instructions to call or return if signs of infection develop.

**12VAC5-412-240. Medical testing and laboratory services.**

A. Prior to the initiation of any abortion, a medical history and physical examination, including a confirmation of pregnancy, and completion of all the requirements of informed written consent pursuant to § 18.2-76 of the Code of Virginia, shall be completed for each patient.

1. Use of any additional medical testing shall be based on an assessment of patient risk. The clinical criteria for such additional testing and the actions to be taken if abnormal results are found shall be documented.

2. Medical testing shall include a recognized method to confirm pregnancy and determination or documentation of Rh factor.

3. The abortion facility shall develop, implement, and maintain policies and procedures for screening of sexually transmitted diseases consistent with current guidelines issued by the U.S. Centers for Disease Control and Prevention. The policies and procedures shall address appropriate responses to a positive screening test.

4. A written report of each laboratory test and examination shall be a part of the patient's record.

B. Laboratory services shall be provided on site or through arrangement with a laboratory certified to provide the required procedures under the Clinical Laboratory Improvement Amendments of 1988 (CLIA-88) (42 CFR Part 493).

1. Facilities for collecting specimens shall be available on site.

2. If laboratory services are provided on site they shall be directed by a person who qualifies as a director under CLIA-88 and shall be performed in compliance with CLIA-88 standards.

3. All laboratory supplies shall be monitored for expiration dates, if applicable, and disposed of properly.

C. All tissues removed resulting from the abortion procedure shall be examined to verify that villi or fetal parts are present; if villi or fetal parts cannot be identified with certainty, the tissue specimen shall be sent for further pathologic examination and the patient alerted to the possibility of an ectopic pregnancy, and referred appropriately.

D. All tissues removed resulting from the abortion procedure shall be managed in accordance with requirements for medical waste pursuant to the Regulated Medical Waste Management Regulations (9VAC20-120).

**12VAC5-412-250. Anesthesia service.**

A. The anesthesia service shall comply with the office-based anesthesia provisions of the Regulations Governing the Practice of Medicine, Osteopathic Medicine, Podiatry, and Chiropractic (18VAC85-20-310 et seq.).

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# Regulations

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B. The anesthesia service shall be directed by and under the supervision of a physician licensed in Virginia.

C. When moderate sedation or conscious sedation is administered, the licensed health care practitioner who administers the anesthesia shall routinely monitor the patient according to procedures consistent with such administration.

D. An abortion facility administering moderate sedation/conscious sedation shall maintain the following equipment, supplies, and pharmacological agents as required by 18VAC85-20-360 B:

1. Appropriate equipment to manage airways;
2. Drugs and equipment to treat shock and anaphylactic reactions;
3. Precordial stethoscope;
4. Pulse oximeter with appropriate alarms or an equivalent method of measuring oxygen saturation;
5. Continuous electrocardiograph;
6. Devices for measuring blood pressure, heart rate, and respiratory rate;
7. Defibrillator; and
8. Accepted method of identifying and preventing the interchangeability of gases.

E. Elective general anesthesia shall not be used.

F. If deep sedation or a major conductive block is administered or if general anesthesia is administered in an emergent situation, the licensed health care practitioner who administers the anesthesia service shall remain present and available in the facility to monitor the patient until the patient meets the discharge criteria.

G. In addition to the requirements of subsection D of this section, an abortion facility administering deep sedation or a major conductive block, or administering general anesthesia in an emergent situation, shall maintain the following equipment, supplies, and pharmacological agents as required by 18VAC85-20-360 C:

1. Drugs to treat malignant hyperthermia, when triggering agents are used;
2. Peripheral nerve stimulator, if a muscle relaxant is used; and
3. If using an anesthesia machine, the following shall be included:
  - a. End-tidal carbon dioxide monitor (capnograph);
  - b. In-circuit oxygen analyzer designed to monitor oxygen concentration within breathing circuit by displaying oxygen percent of the total respiratory mixture;
  - c. Oxygen failure-protection devices (fail-safe system) that have the capacity to announce a reduction in oxygen pressure and, at lower levels of oxygen pressure, to discontinue other gases when the pressure of the supply of oxygen is reduced;

d. Vaporizer exclusion (interlock) system, which ensures that only one vaporizer, and therefore only a single anesthetic agent can be actualized on any anesthesia machine at one time;

e. Pressure-compensated anesthesia vaporizers, designed to administer a constant nonpulsatile output, which shall not be placed in the circuit downstream of the oxygen flush valve;

f. Flow meters and controllers, which can accurately gauge concentration of oxygen relative to the anesthetic agent being administered and prevent oxygen mixtures of less than 21% from being administered;

g. Alarm systems for high (disconnect), low (subatmospheric), and minimum ventilatory pressures in the breathing circuit for each patient under general anesthesia; and

h. A gas evacuation system.

H. The abortion facility shall develop, implement, and maintain policies and procedures outlining criteria for discharge from anesthesia care. Such criteria shall include stable vital signs, responsiveness and orientation, ability to move voluntarily, controlled pain, and minimal nausea and vomiting. Discharge from anesthesia care is the responsibility of the health care practitioner providing the anesthesia care and shall occur only when the patient has met specific physician-defined criteria.

## **12VAC5-412-260. Administration, storage and dispensing of drugs.**

A. Controlled substances, as defined in § 54.1-3401 of the Code of Virginia, shall be stored, administered, and dispensed in accordance with federal and state laws. The dispensing of drugs, excluding manufacturers' samples, shall be in accordance with Chapter 33 (§ 54.1-3400 et seq.) of Title 54.1 of the Code of Virginia, Regulations Governing the Practice of Pharmacy (18VAC110-20), and Regulations for Practitioners of the Healing Arts to Sell Controlled Substances (18VAC110-30).

B. Drugs, as defined in § 54.1-3401 of the Code of Virginia, whose intended use is to induce a termination of pregnancy shall only be prescribed, dispensed, or administered by a physician.

C. Drugs maintained in the abortion facility for daily administration shall not be expired and shall be properly stored in enclosures of sufficient size with restricted access to authorized personnel only. Drugs shall be maintained at appropriate temperatures in accordance with definitions in 18VAC110-20-10.

D. The mixing, diluting, or reconstituting of drugs for administration shall be in accordance with regulations of the Board of Medicine (18VAC85-20-400 et seq.).

E. Records of all drugs in Schedules I-V received, sold, administered, dispensed, or otherwise disposed of shall be maintained in accordance with federal and state laws, to

include the inventory and reporting requirements of a theft or loss of drugs found in § 54.1-3404 of the Code of Virginia.

**12VAC5-412-270. Equipment and supplies.**

An abortion facility shall maintain medical equipment and supplies appropriate and adequate to care for patients based on the level, scope, and intensity of services provided, to include:

1. A bed or recliner suitable for recovery;
2. Oxygen with flow meters and masks or equivalent;
3. Mechanical suction;
4. Resuscitation equipment to include, as a minimum, resuscitation bags and oral airways;
5. Emergency medications, intravenous fluids, and related supplies and equipment;
6. Sterile suturing equipment and supplies;
7. Adjustable examination light;
8. Containers for soiled linen and waste materials with covers; and
9. Refrigerator.

**12VAC5-412-280. Emergency equipment and supplies.**

An abortion facility shall maintain medical equipment, supplies, and drugs appropriate and adequate to manage potential emergencies based on the level, scope, and intensity of services provided. Such medical equipment, supplies, and drugs shall be determined by the physician and shall be consistent with the current edition of the American Heart Association's Guidelines for Advanced Cardiovascular Life Support. Drugs shall include, at a minimum, those to treat the following conditions:

1. Cardiopulmonary arrest;
2. Seizure;
3. Respiratory distress;
4. Allergic reaction;
5. Narcotic toxicity;
6. Hypovolemic shock; and
7. Vasovagal shock.

**12VAC5-412-290. Emergency services.**

A. An abortion facility shall provide ongoing urgent or emergent care and maintain on the premises adequate monitoring equipment, suction apparatus, oxygen, and related items for resuscitation and control of hemorrhage and other complications.

B. An abortion facility that performs abortions using intravenous sedation shall provide equipment and services to render emergency resuscitative and life-support procedures pending transfer of the patient to a hospital. Such medical equipment and services shall be consistent with the current edition of the American Heart Association's Guidelines for Advanced Cardiovascular Life Support.

C. A written agreement shall be executed with a licensed general hospital to ensure that any patient of the abortion facility shall receive needed emergency treatment. The agreement shall be with a licensed general hospital capable of providing full surgical, anesthesia, clinical laboratory, and diagnostic radiology service on 30 minutes notice and which has a physician in the hospital and available for emergency service at all times. When emergency transfer is necessary, the responsible physician at the abortion facility must provide direct communication to the emergency department staff regarding the status of the patient, the procedure details, and the suspected complication. All patients must be provided with contact information for a representative of the abortion facility, so that an emergency department physician or treating provider may make contact with a provider of the facility if late complications arise.

**Part V**

**Support Services - Health Information Records and Reports**

**12VAC5-412-300. Health information records.**

An accurate and complete clinical record or chart shall be maintained on each patient. The record or chart shall contain sufficient information to satisfy the diagnosis or need for the medical or surgical service. It shall include, but not be limited to the following:

1. Patient identification;
2. Admitting information, including patient history and physical examination;
3. Signed consent;
4. Confirmation of pregnancy; and
5. Procedure report to include:
  - a. Physician orders;
  - b. Laboratory tests, pathologist's report of tissue, and radiologist's report of x-rays;
  - c. Anesthesia record;
  - d. Operative record;
  - e. Surgical medication and medical treatments;
  - f. Recovery room notes;
  - g. Physicians' and nurses' progress notes;
  - h. Condition at time of discharge;
  - i. Patient instructions (preoperative and postoperative); and
  - j. Names of referral physicians or agencies; and
6. Any other information required by law to be maintained in the health information record.

**12VAC5-412-310. Records storage.**

Provisions shall be made for the safe storage of medical records or accurate and eligible reproductions thereof according to applicable federal and state law, including the Health Insurance Portability and Accountability Act (42 USC § 1320d et seq.).

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# Regulations

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## **12VAC5-412-320. Required reporting.**

A. Abortion facilities shall comply with the fetal death and induced termination of pregnancy reporting provisions in the Board of Health Regulations Governing Vital Records (12VAC5-550-120).

B. The abortion facility shall report the following events to OLC:

1. Any patient, staff, or visitor death;
2. Any serious injury to a patient;
3. Medication errors that necessitate a clinical intervention other than monitoring;
4. A death or significant injury of a patient or staff member resulting from a physical assault that occurs within or on the abortion facility grounds; and
5. Any other incident reported to the malpractice insurance carrier or in compliance with the federal Safe Medical Devices Act of 1990 (21 USC § 301 et seq. - Pub. L. No. 101-629).

C. Notification of the events listed in subsection B of this section shall be required within 24 hours of occurrence. Each notice shall contain the:

1. Abortion facility name;
2. Type and circumstance of the event being reported;
3. Date of the event; and
4. Actions taken by the abortion facility to protect patient and staff safety and to prevent recurrence.

D. Compliance with this section does not relieve the abortion facility from complying with any other applicable reporting or notification requirements, such as those relating to law-enforcement or professional regulatory agencies.

E. Records that are confidential under federal or state law shall be maintained as confidential by the OLC and shall not be further disclosed by the OLC, except as required or permitted by law.

F. Abortion facilities shall ensure that employees mandated to report suspected child abuse or neglect under § 63.2-1509 of the Code of Virginia comply with the reporting requirements of § 63.2-1509 of the Code of Virginia.

### Part VI

#### Functional Safety and Maintenance

## **12VAC5-412-330. Abortion facility security and safety.**

The abortion facility shall develop, implement, and maintain policies and procedures to ensure safety within the abortion facility and on its grounds and to minimize hazards to all occupants. The policies and procedures shall include, but not be limited to:

1. Abortion facility security;
2. Safety rules and practices pertaining to personnel, equipment, gases, liquids, drugs, supplies, and services; and

3. Provisions for disseminating safety-related information to employees and users of the abortion facility.

## **12VAC5-412-340. Disaster preparedness.**

A. Each abortion facility shall develop, implement, and maintain policies and procedures to ensure reasonable precautions are taken to protect all occupants from hazards of fire and other disasters. The policies and procedures shall include provisions for evacuation of all occupants in the event of a fire or other disaster.

B. An abortion facility that participates in community disaster planning shall establish plans, based on its capabilities, to meet its responsibilities for providing emergency care.

## **12VAC5-412-350. Maintenance.**

A. The abortion facility's structure, its component parts, and all equipment such as elevators, heating, cooling, ventilation, and emergency lighting, shall be kept in good repair and operating condition. Areas used by patients shall be maintained in good repair and kept free of hazards. All wooden surfaces shall be sealed with nonlead-based paint, lacquer, varnish, or shellac that will allow sanitization.

B. When patient monitoring equipment is utilized, a written preventive maintenance program shall be developed and implemented. This equipment shall be checked and/or tested in accordance with manufacturer's specifications at periodic intervals, not less than annually, to ensure proper operation and a state of good repair. After repairs and/or alterations are made to any equipment, the equipment shall be thoroughly tested for proper operation before it is returned to service. Records shall be maintained on each piece of equipment to indicate its history of testing and maintenance.

## **12VAC5-412-360. Fire-fighting equipment and systems.**

A. Each abortion facility shall establish a monitoring program for the internal enforcement of all applicable fire and safety laws and regulations and shall designate a responsible employee for the monitoring program.

B. All fire protection and alarm systems and other firefighting equipment shall be inspected and tested in accordance with the current edition of the Virginia Statewide Fire Prevention Code (§ 27-94 et seq. of the Code of Virginia) to maintain them in serviceable condition.

C. All corridors and other means of egress or exit from the building shall be maintained clear and free of obstructions in accordance with the current edition of the Virginia Statewide Fire Prevention Code (§ 27-94 et seq. of the Code of Virginia).

### Part VII

#### Design and Construction

## **12VAC5-412-370. Local and state codes and standards.**

Abortion facilities shall comply with state and local codes, zoning, and building ordinances and the Virginia Uniform Statewide Building Code (13VAC5-63). In addition, abortion

facilities shall comply with Part 1 and sections 3.1-1 through 3.1-8 and section 3.7 of Part 3 of the 2010 Guidelines for Design and Construction of Health Care Facilities of the Facilities Guidelines Institute, which shall take precedence over the Virginia Uniform Statewide Building Code pursuant to § 32.1-127.001 of the Code of Virginia.

Entities operating as of the effective date of this chapter as identified by the department through submission of Reports of Induced Termination of Pregnancy pursuant to 12VAC5-550-120 or other means and that are now subject to licensure may be licensed in their current buildings if such entities submit a plan with the application for licensure that will bring them into full compliance with this provision within two years from the date of licensure.

In order to determine whether the abortion facility is in compliance with this provision, the commissioner may obtain additional information from the facility or its architect concerning the design and construction of the facility.

DOCUMENTS INCORPORATED BY REFERENCE (12VAC5-412)

Guidelines for Design and Construction of Health Care Facilities, Facilities Guidelines Institute (formerly of the American Institute of Architects), Washington, D.C., 2010 Edition.

VA.R. Doc. No. R12-2970; Filed January 8, 2013, 2:45 p.m.

**BOARD OF MEDICAL ASSISTANCE SERVICES**

**Final Regulation**

**REGISTRAR'S NOTICE:** The following regulatory action is exempt from the Administrative Process Act in accordance with § 2.2-4006 A 4 c of the Code of Virginia, which excludes regulations that are necessary to meet the requirements of federal law or regulations, provided such regulations do not differ materially from those required by federal law or regulation. The Department of Medical Assistance Services will receive, consider, and respond to petitions by any interested person at any time with respect to reconsideration or revision.

**Title of Regulation:** 12VAC30-50. Amount, Duration, and Scope of Medical and Remedial Care Services (amending 12VAC30-50-20, 12VAC30-50-60).

**Statutory Authority:** § 32.1-325 of the Code of Virginia.

**Effective Date:** February 27, 2013.

**Agency Contact:** Brian McCormick, Regulatory Supervisor, Department of Medical Assistance Services, 600 East Broad Street, Suite 1300, Richmond, VA 23219, telephone (804) 371-8856, FAX (804) 786-1680, or email brian.mccormick@dmas.virginia.gov.

**Summary:**

The amendments to the regulation are required by § 4107 of the Patient Protection and Affordable Care Act (PPACA) (Pub. L. No. 111-148), which mandates

Medicaid coverage of comprehensive tobacco cessation services for pregnant women, including both counseling and pharmacotherapy, without the imposition of cost sharing (copayments) charges.

**12VAC30-50-20. Services provided to the categorically needy without limitation.**

The following services as described in Part III (12VAC30-50-100 et seq.) of this chapter are provided to the categorically needy without limitation:

1. Nursing facility services (other than services in an institution for mental diseases) for individuals 21 years of age or older.
2. Services for individuals age 65 or over in institutions for mental diseases: inpatient hospital services; skilled nursing facility services; and services in an intermediate care facility.
3. Intermediate care facility services (other than such services in an institution for mental diseases) for persons determined, in accordance with § 1902(a)(31)(A) of the Act, to be in need of such care, including such services in a public institution (or distinct part thereof) for the mentally retarded or persons with related conditions.
4. Hospice care (in accordance with § 1905(o) of the Act).
5. Any other medical care and any type of remedial care recognized under state law, specified by the Secretary: care and services provided in religious nonmedical health care institutions; nursing facility services for patients under 21 years of age; emergency hospital services.
6. Private health insurance premiums, coinsurance and deductibles when cost effective (pursuant to ~~P.L.~~ Pub. L. No. 101-508 § 4402).
7. Program of All-Inclusive Care for the Elderly (PACE) services are provided for eligible individuals as an optional State Plan service for categorically needy individuals without limitation.
8. Pursuant to Pub. L. No. 111-148 § 4107, counseling and pharmacotherapy for cessation of tobacco use by pregnant women shall be covered.

a. Counseling and pharmacotherapy for cessation of tobacco use by pregnant women means diagnostic, therapy, and counseling services and pharmacotherapy (including the coverage of prescription and nonprescription tobacco cessation agents approved by the Food and Drug Administration) for cessation of tobacco use by pregnant women who use tobacco products or who are being treated for tobacco use that is furnished (i) by or under the supervision of a physician, (ii) by any other health care professional who is legally authorized to provide tobacco cessation services under state law and is authorized to provide Medicaid coverable services other than tobacco cessation services, or (iii) by any other health care professional who is legally authorized to provide tobacco cessation services under state law and



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# Regulations

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who is specifically designated by the U.S. Secretary of Health and Human Services in federal regulations for this purpose.

b. No cost sharing shall be applied to these services. In addition to other services that are covered for pregnant women, 12VAC30-50-510 also provides for other smoking cessation services that are covered for pregnant women.

## **12VAC30-50-60. Services provided to all medically needy groups without limitations.**

Services as described in Part III (12VAC30-50-100 et seq.) of this chapter are provided to all medically needy groups without limitations.

1. Nursing facility services (other than services in an institution for mental diseases) for individuals 21 years of age or older.

2. Early and periodic screening and diagnosis of individuals under 21 years of age, and treatment of conditions found.

3. ~~Reserved.~~ Pursuant to Pub. L. No. 111-148 § 4107, counseling and pharmacotherapy for cessation of tobacco use by pregnant women shall be covered.

a. Counseling and pharmacotherapy for cessation of tobacco use by pregnant women means diagnostic, therapy, and counseling services and pharmacotherapy (including the coverage of prescription and nonprescription tobacco cessation agents approved by the Food and Drug Administration) for cessation of tobacco use by pregnant women who use tobacco products or who are being treated for tobacco use that is furnished (i) by or under the supervision of a physician, (ii) by any other health care professional who is legally authorized to provide tobacco cessation services under state law and is authorized to provide Medicaid coverable services other than tobacco cessation services, or (iii) by any other health care professional who is legally authorized to provide tobacco cessation services under state law and who is specifically designated by the U.S. Secretary of Health and Human Services in federal regulations for this purpose.

b. No cost sharing shall be applied to these services. In addition to other services that are covered for pregnant women, 12VAC30-50-510 also provides for other smoking cessation services that are covered for pregnant women.

4. Intermediate care facility services (other than such services in an institution for mental diseases) for persons determined in accordance with § 1905(a)(4)(A) of the Act to be in need of such care.

5. Hospice care (in accordance with § 1905(o) of the Act).

6. Any other medical care or any other type of remedial care recognized under state law, specified by the secretary, including: care and services provided in religious

nonmedical health care institutions; skilled nursing facility services for patients under 21 years of age; and emergency hospital services.

7. Private health insurance premiums, coinsurance and deductibles when cost effective (pursuant to ~~P.L.~~ Pub. L. No. 101-508 § 4402).

8. Program of All-Inclusive Care for the Elderly (PACE) services are provided for eligible individuals as an optional State Plan service for medically needy individuals without limitation.

V.A.R. Doc. No. R13-3152; Filed December 28, 2012, 3:24 p.m.

## **STATE BOARD OF BEHAVIORAL HEALTH AND DEVELOPMENTAL SERVICES**

### **Emergency Regulation**

Title of Regulation: **12VAC35-230. Operation of the Individual and Family Support Program (adding 12VAC35-230-10 through 12VAC35-230-110).**

Statutory Authority: § 37.2-203 of the Code of Virginia.

Effective Dates: January 15, 2013, through January 14, 2014.

Agency Contact: Linda B. Grasewicz, Senior Planner, Department of Behavioral Health and Developmental Services, Jefferson Building, 1220 Bank Street, 12th Floor, Richmond, VA 23219, telephone (804) 786-0040, FAX (804) 371-0092, or email linda.grasewicz@dbhds.virginia.gov.

#### Preamble:

*Chapter 3 of the 2012 Virginia Acts of Assembly (Budget Bill Item 315 V.3) requires the Department of Behavioral Health and Developmental Services to promulgate regulations to establish an Individual and Family Support Program. The legislation states that the department shall promulgate such regulations within 280 days or less from the enactment date of the act. The enactment date was June 11, 2012. Therefore, this is an "emergency situation" according to § 2.2-4011) of the Administrative Process Act.*

*The proposed emergency regulations will establish an Individual and Family Support Program (IFSP) for individuals with ID/DD who are on the waiting list for either an ID or a DD waiver. This program is required by the DOJ settlement agreement, which also stipulates that this program will be operational before the end of FY 13.*

*This emergency regulation establishes a support program for individuals who are living in their own homes or a family home and are on the statewide waiting list for Intellectual Disability (ID) Medicaid Waiver or the Individual and Family Developmental Disabilities Services (IFDDS) Medicaid Waiver and the family members who are supporting these individuals. Establishment of this program is required by a recent agreement signed between the Commonwealth and the Department of Justice. This*

*agreement specifies the specific number of individuals to be served annually by this program.*

#### CHAPTER 230

### OPERATION OF THE INDIVIDUAL AND FAMILY SUPPORT PROGRAM

#### **12VAC35-230-10. Definitions.**

The following words and terms when used in this chapter shall have the following meanings unless the context clearly indicates otherwise:

"Commissioner" means the Commissioner of the Department of Behavioral Health and Developmental Services.

"Department" means the Department of Behavioral Health and Developmental Services.

"Developmental disability" means a severe, chronic disability of an individual that:

1. Is attributable to a mental or physical impairment or combination of mental and physical impairments;
2. Is manifested before the individual attains age 22;
3. Is likely to continue indefinitely;
4. Results in substantial functional limitations in three or more of the following areas of major life activity: (i) self-care; (ii) receptive and expressive language; (iii) learning; (iv) mobility; (v) self-direction; (vi) capacity for independent living; and (vii) economic self-sufficiency; and
5. Reflects the individual's need for a combination and sequence of special, interdisciplinary or generic services, individualized supports or other forms of assistance that are of lifelong or extended duration and are individually planned and coordinated. (42 USC § 15002)

"Family member" means an immediate family member of an individual receiving services or the principal caregiver of that individual. A principal caregiver is a person who acts in the place of an immediate family member, including other relatives and foster care providers, but does not have a proprietary interest in the care of the individual receiving services. (§ 37.2-100 of the Code of Virginia)

"Individual and Family Support" means an array of individualized items and services that are intended to support the continued residence of an individual with intellectual or developmental disabilities (ID/DD) in his own or the family home.

"Intellectual disability" or "ID" means a disability, originating before the age of 18 years, characterized concurrently by (i) significantly subaverage intellectual functioning as demonstrated by performance on a standardized measure of intellectual functioning, administered in conformity with accepted professional practice, that is at least two standard deviations below the mean; and (ii) significant limitations in adaptive behavior as

expressed in conceptual, social, and practical adaptive skills. (§ 37.2-100 of the Code of Virginia)

#### **12VAC35-230-20. Program description.**

A. The Individual and Family Support Program assists individuals with intellectual disability (ID) or developmental disabilities (DD) and their family members to access needed person-centered and family-centered resources, supports, services and other assistance as approved by the department. As such, Individual and Family Support Program funds shall be distributed directly to the requesting individual or family member or a third party designated by the individual or family member.

B. The overall objective of the Individual and Family Support Program is to support the continued residence of an individual with intellectual or developmental disabilities in his own home or the family home, which include the home of a principal caregiver.

C. Individual and Family Support Program funds shall not supplant or in any way limit the availability of services provided through a Medicaid Home and Community-Based Waiver, Early and Periodic Screening, Diagnosis and Treatment, or similar programs.

#### **12VAC35-230-30. Program eligibility requirements.**

Eligibility for Individual and Family Support Program funds shall be limited to individuals who are living in their own or a family home and are on the statewide waiting list for the Intellectual Disability (ID) Medicaid Waiver or the Individual and Family Developmental Disabilities Services (IFDDS) Medicaid Waiver and family members that are assisting those individuals.

#### **12VAC35-230-40. Program implementation.**

A. Individual and Family Support Program funds shall be limited by the amount of funds allocated to the program by the General Assembly. Department approval of funding requests shall not exceed the funding available for the fiscal year.

B. Based on funding availability, the department shall establish an annual individual financial support limit, which is the maximum annual amount of funding that can be provided to support an eligible individual during the applicable fiscal year.

C. Individual and Family Support Program funds may be provided to individuals or family members in varying amounts, as requested and approved by the department, up to the established annual individual financial support limit.

D. On an annual basis, the department shall announce Individual and Family Support Program total funding availability and the annual individual financial support limit for the applicable fiscal year. This announcement shall include a summary of covered services, the application, and the application review criteria.

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# Regulations

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E. Individuals and family members may submit applications for Individual and Family Support Program funding as needs arise throughout the year. Applications shall be considered by the department on a first-come, first-serve basis until the annual allocation appropriated to the program by the General Assembly for the applicable fiscal year has been expended.

F. Individuals and their family members may apply for Individual and Family Support Program funding each year and may submit more than one application in a single year; however, the total amount approved during the year shall not exceed the annual individual financial support limit.

## **12VAC35-230-50. Covered services and supports.**

Services and items funded through the Individual and Family Support Program are intended to support the continued residence of an individual in his own or the family home and may include:

1. Professionally provided services and supports, such as respite, transportation services, behavioral consultation, and behavior management;
2. Assistive technology and home modifications, goods, or products that directly support the individual;
3. Temporary rental assistance or deposits;
4. Fees for summer camp and other recreation services;
5. Temporary assistance with utilities or deposits;
6. Dental or medical expenses of the individual;
7. Family education, information, and training;
8. Peer mentoring and family-to-family supports;
9. Emergency assistance and crisis support; or
10. Other direct support services as approved by the department.

## **12VAC35-230-60. Application for funding.**

A. Eligible individuals or family members who choose to apply for Individual and Family Support Program funds shall submit a completed application to the department.

B. Completed applications shall include the following information:

1. A detailed description of the services or items for which funding is requested;
2. Documentation that the requested services or items are needed to support the continued residence of the individual with ID/DD in his own or the family home and no other public funding sources are available;
3. The requested funding amount and frequency of payment; and
4. A statement in which the individual or family member:
  - a. Agrees to provide the department with documentation to establish that the requested funds were used to purchase only approved services or items; and
  - b. Acknowledges that failure to provide documentation that the requested funds were used to purchase only

approved services or items may result in recovery of such funds and denial of subsequent funding requests.

C. The application shall be signed by the individual or family member requesting the funding.

## **12VAC35-230-70. Application review criteria.**

Upon receipt of a completed application, the department shall:

1. Verify that the individual is on the statewide Medicaid ID or IFDDS Waiver waiting list;
2. Confirm that the services or items for which funding is requested are eligible for funding in accordance with 12VAC35-230-50;
3. Determine that the services or items for which funding is requested are needed to support the continued residence of the individual with ID/DD in his own or the family home;
4. Determine that other public funding sources have been fully explored and utilized and are not available to purchase or provide the requested services or items;
5. Evaluate the cost of the requested services or items; and
6. Consider past performance of the individual and family members regarding compliance with this chapter.

## **12VAC35-230-80. Funding decision-making process.**

A. Applications may be approved at a reduced amount when the amount requested exceeds a reasonable amount as determined by department staff as being necessary to purchase the services or items.

B. Applications shall be denied if the department determines that:

1. The service or item for which funding is requested is not eligible for funding in accordance with 12VAC35-230-50;
2. The request exceeds the maximum annual individual financial support limit for the applicable fiscal year;
3. Other viable public funding sources have not been fully explored or utilized;
4. The requesting individual or family member has not used previously received Individual and Family Support Program funds in accordance with the department's written notice approving the request or has failed to comply with these regulations; or
5. The total annual Individual and Family Support Program funding appropriated by the General Assembly has been expended for the applicable fiscal year.

C. The department shall provide a written notice to the individual or family member who submitted the application indicating the funding decision.

1. Approval notices shall include:

- a. The services, supports, or other items for which funding is approved;
- b. The amount and timeframe of the financial allocation;

c. The expected date that the funds should be released; and

d. Financial expenditure documentation requirements and the date or dates by which this documentation shall be provided to the department.

2. For applications where funding is denied or approved at a reduced amount, the department's notice shall state the reason or reasons why the requested services, supports, or other items were denied or were approved at a reduced amount and the process for requesting the department to reconsider its funding decision.

**12VAC35-230-90. Requests for reconsideration.**

A. Individuals or family members who disagree with the determination of the department may submit a written request for reconsideration to the commissioner, or his designee, within 30 days of the date of the written notice of denial or approval at a reduced amount.

B. The commissioner, or his designee, shall provide an opportunity for the person requesting reconsideration to submit for review any additional information or reasons why the funding should be approved as originally requested.

C. The commissioner, or his designee, after reviewing all submitted materials shall render a written decision on the request for reconsideration within 30 calendar days of the receipt of the request and shall notify all involved parties in writing. The commissioner's decision shall be binding.

D. Applicants may obtain further review of the decision in accordance with the Administrative Process Act (§ 2.2-4000 et seq. of the Code of Virginia).

**12VAC35-230-100. Post-funding review.**

A. Utilization review of documentation or verification of funds expended may be undertaken by department staff. Reviews may include home visits to view items purchased or services delivered.

B. Individuals and family members receiving Individual and Family Support Program funds shall permit the department representatives to conduct utilization reviews, including home visits.

C. Individuals and family members receiving Individual and Family Support Program funds shall fully cooperate with such reviews and provide all information requested by the department.

D. Failure to use funds in accordance with the department's written notice or provide documentation that the funds were used to purchase only approved services or items may result in recovery of such by the department.

**12VAC35-230-110. Termination of funding for services, supports, or other assistance.**

Funding through the Individual and Family Support Program shall be terminated when the individual is enrolled in the ID or IFDDS waiver or if approved funds are used for purposes not approved by the department in its written notice.

Any funds approved, but not released, will be forfeited in such circumstances.

VA.R. Doc. No. R13-3439; Filed January 15, 2013, 9:38 a.m.

## TITLE 21. SECURITIES AND RETAIL FRANCHISING

### STATE CORPORATION COMMISSION

#### Proposed Regulation

Titles of Regulations: 21VAC5-10. General Administration - Securities Act (amending 21VAC5-10-40).

**21VAC5-20. Broker-Dealers, Broker-Dealer Agents and Agents of the Issuer (amending 21VAC5-20-10, 21VAC5-20-30, 21VAC5-20-40, 21VAC5-20-50, 21VAC5-20-80, 21VAC5-20-90, 21VAC5-20-95, 21VAC5-20-110, 21VAC5-20-120, 21VAC5-20-130, 21VAC5-20-150, 21VAC5-20-160, 21VAC5-20-180, 21VAC5-20-190, 21VAC5-20-200, 21VAC5-20-220, 21VAC5-20-230, 21VAC5-20-260, 21VAC5-20-280, 21VAC5-20-330; adding 21VAC5-20-285).**

**21VAC5-30. Securities Registration (amending 21VAC5-30-50, 21VAC5-30-80).**

**21VAC5-40. Exempt Securities and Transactions (adding 21VAC5-40-180; repealing 21VAC5-40-40, 21VAC5-40-60, 21VAC5-40-80, 21VAC5-40-90).**

**21VAC5-45. Federal Covered Securities (amending 21VAC5-45-20).**

**21VAC5-80. Investment Advisors (amending 21VAC5-80-10, 21VAC5-80-30, 21VAC5-80-40, 21VAC5-80-50, 21VAC5-80-60, 21VAC5-80-70, 21VAC5-80-90, 21VAC5-80-100, 21VAC5-80-110, 21VAC5-80-130, 21VAC5-80-160, 21VAC5-80-170, 21VAC5-80-180, 21VAC5-80-190, 21VAC5-80-200, 21VAC5-80-215; adding 21VAC5-80-146; repealing 21VAC5-80-145).**

**21VAC5-100. Disclosure of Information or Documents by Commission (amending 21VAC5-100-10).**

Statutory Authority: §§ 12.1-13 and 13.1-523 of the Code of Virginia.

Public Hearing Information: Public hearing will be held upon request.

Public Comment Deadline: March 1, 2013.

Agency Contact: Hazel Stewart, Section Chief, Securities Division, State Corporation Commission, Tyler Building, 9th Floor, P.O. Box 1197, Richmond, VA 23218, telephone (804) 371-9685, FAX (804) 371-9211, or email hazel.stewart@scc.virginia.gov.

Background:

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# Regulations

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The Division of Securities and Retail Franchising (division) is proposing changes to the securities regulations in Title 21 of the Virginia Administrative Code. As the division reviewed and revised portions of the regulations, regulatory changes at the federal level dealing with the regulation of investment advisors occurred. These changes required the division to revise rules governing investment advisors under state jurisdiction, including custody rule as advised by the North American Securities Administration Associations, Inc. (NASSA) This change, along with other conforming changes to Chapter 80 (21VAC5-80) will allow Virginia to have regulations governing investment advisors that are the same as regulations in other states and ease compliance for the new investment advisors that resulted from the changes made to federal law. In conjunction with those changes, the division made other changes for clarity, made changes to names, cleaned up grammatical errors, and added necessary definitions, etc. Many of the amendments are not controversial or substantive.

## Summary:

Proposed amendments delete the definition of and references to the National Association of Securities Dealers, Inc. (NASD) and substitute the new name Financial Industry Regulatory Authority, Inc. (FINRA). References to the Central Registration Depository (CRD) and Investment Advisor Registration Depository (IARD) were cross-referenced and made consistent. Proposed definitions are added to Chapter 10 (21VAC5-10) to provide clarification to terms used, including adding definitions for "qualified investment advisor representative" and "social media." For consistency purposes, proposed revisions to other rules are made to comport with the changes to 21VAC5-10.

Substantial changes are proposed to 21VAC5-20-260, 21VAC5-20-280, and 21VAC5-20-330, which regulate broker-dealer activity. Proposed amendments to 21VAC5-20-260 clean up the language that requires broker-dealers to annually inspect their Virginia offices and change the reference from "supervisor" to the more specific "principal." Comprehensive proposed amendments to 21VAC5-20-280 include:

1. 21VAC5-20-280 A 3, further defines the term "reasonable basis" for broker-dealers that make securities recommendations;
2. 21VAC5-20-280 A 10, revisions allow a broker-dealer to deliver a prospectus to an investor by electronic means if the investor opts into the broker-dealer's program for such delivery;
3. 21VAC5-20-280 A 15, proposes to combine provisions from former 21VAC5-20-280 E, as well as add other examples of known broker-dealer manipulative, deceptive, or fraudulent practices into one subdivision. By combining the provisions into one subdivision,

broker-dealers will be able to review and revise their supervision and compliance procedures by referencing most applicable regulations by reviewing one subdivision;

4. 21VAC5-20-280 A 27 through A 40, revises and relocates provisions governing broker-dealer business conduct currently found in 21VAC5-20-280 E 6 and G;
5. 21VAC5-20-280 B 6, 7, and 8, conforms to the changes to 21VAC5-20-280 A, prohibit a broker-dealer agent from failing to comply with continuing education requirements, and prohibit broker-dealer agents from failing to properly identify the broker-dealer under which he is registered;
6. 21VAC5-20-280 C, moves language governing examination and qualifications requirements for broker-dealer agents to 21VAC5-20-150; and
7. 21VAC5-20-280 F is moved from 21VAC5-20-280 to a new section numbered 21VAC5-20-285. The provisions of 21VAC5-20-280 G are moved to 21VAC5-20-280 A 40. 21VAC5-20-280 H is already covered in the securities act and is proposed to be repealed. A new section numbered 21VAC5-20-285 is proposed. This is not new language. Provisions pertaining to the notice currently required to be provided by broker-dealers who offer and sell designated securities to their customers and is, therefore, not prohibited business conduct currently found in 21VAC5-20-280 F is moved to new section 21VAC5-20-285.

21VAC5-20-330 addresses the networking arrangements between broker-dealers and financial institutions. The proposed regulation addresses certain practices related to these networking arrangements, including:

1. Reviews of the provisions of the networking arrangement 90 days prior to implementation by division staff.
2. Proposed 21VAC5-20-330 C 1 c allows a financial institution affiliate to register with the commission as a broker-dealer, which in turn, will allow both the affiliate and the broker-dealer under this contractual arrangement to dually employ agents.
3. Proposed 21VAC5-20-330 C 7 adds additional prohibited conduct provisions for only those broker-dealers conducting business under these contractual relationships, including accepting compensation from financial institutions, identifying the appropriate affiliations to the public, failing to follow the contract terms, and using nonregistered employees of the financial institution or any affiliate of the financial institution.

Proposed amendment to 21VAC5-30-80 adds the NASAA Church Extension Fund Securities guidelines to the list of adopted NASAA statements of policy.

21VAC5-40-40, 21VAC5-40-60, 21VAC5-40-80, and 21VAC5-40-90 are proposed for repeal due to the implementation of the National Securities Markets Improvement Act. New section 21VAC5-40-180 covers those products listed on the national markets, such as the New York Stock Exchange or NASDAQ, that are still within the division's regulatory authority.

21VAC5-80-145 is repealed and replaced by new section 21VAC5-80-146. This is the new custody rule for investment advisors. Amendments to 21VAC5-80-160 add several new provisions to the investment advisor recordkeeping requirements to conform them to the proposed new custody rule in new section 21VAC5-80-146. 21VAC5-80-170 is the revised investment advisor supervision rule that parallels the supervision rule for broker-dealers found in 21VAC5-20-260.

AT RICHMOND, DECEMBER 21, 2012

COMMONWEALTH OF VIRGINIA, ex rel.  
STATE CORPORATION COMMISSION

CASE NO. SEC-2012-00038

Ex Parte: In the matter of  
Adopting a Revision to the Rules  
Governing the Virginia Securities Act

#### ORDER TO TAKE NOTICE

Section 12.1-13 of the Code of Virginia provides that the State Corporation Commission ("Commission") shall have the power to promulgate rules and regulations in the enforcement and administration of all laws within its jurisdiction. Section 13.1-523 of the Virginia Securities Act ("Act"), § 13.1-501 et seq. of the Code of Virginia, provides that the Commission may issue any rules and regulations necessary or appropriate for the administration and enforcement of the Act.

The rules and regulations issued by the Commission pursuant to the Act are set forth in Title 21 of the Virginia Administrative Code. A copy also may be found at the Commission's website: [www.scc.virginia.gov/case](http://www.scc.virginia.gov/case).

The Division of Securities and Retail Franchising ("Division") submitted to the Commission substantial revisions to Chapters 20, 30, 40, and Chapter 80; and minor, grammatical, and technical changes to Chapters 10, 20, 30, 40, 80, and 100 of Title 21 of the Virginia Administrative Code entitled "Securities Act Rules" ("Rules").

The majority of the proposed technical changes are clean-up revisions, including deleting the definition of and references to "National Association of Securities Dealers, Inc." ("NASD") and substituting the new name "Financial Industry Regulatory Authority, Inc." ("FINRA"). References to "Central Registration Depository" ("CRD") and "Investment Advisor Registration Depository" ("IARD") were cross-referenced and made consistent throughout the Rules. Proposed definitions were added to Chapter 10 to provide

further clarification to terms used in certain regulations, including adding definitions for "qualified investment advisor representative" and "social media". The Division, for consistency purposes, proposed revisions to other rules to comport with changes made to Chapter 10.

As stated above, the Division proposes more substantive changes to Chapters 20, 30, 40, and 80, as described below:

#### Proposed Revisions to Chapter 20. Broker-dealers.

Chapter 20 contains the Rules that apply to the regulation of broker-dealers as defined in § 13.1-504 of the Act. Many of the proposed changes to this chapter address gaps in regulation, as well as codify known Division administrative practices in order to provide full and adequate notice of said practices to broker-dealers. As described above, several Rule sections under Chapter 20 have proposed changes that will be consistent with the revisions to Chapter 10, such as references to FINRA, CRD, and IARD.

Substantial changes are proposed to Sections 260, 280 and 330, which contain regulations regarding broker-dealer activity. The Division proposes to revise these three sections to conform the regulation with known broker-dealer industry practices in the areas of supervisory procedures, annual Virginia office inspections, broker-dealer and broker-dealer agent business conduct, and offers and sales of securities by broker-dealers through financial institutions under certain contractual arrangements. To highlight the proposed changes, the Division has revised and amended the following sections:

#### Section 260 Supervision.

The proposed changes address the lack of clarity in some of the current language. In addition, the Division proposes to replace the generic term "supervisor" with the more specific term "principal" to ensure that broker-dealer firms use appropriately trained professionals to supervise their agents. A definition for "principal" is proposed.

#### Section 280 Prohibited Business Conduct.

The Division proposes to revise a number of subsections governing broker-dealer and agent business conduct. After reviewing other state and federal regulations governing broker-dealer business conduct, each provision under this section was reviewed and revised to add clarity, consistency, and conformity with current broker-dealer practices. Major proposed revisions include:

**Subdivision A 3.** Language is proposed to further define the term "reasonable basis" for broker-dealers who make securities recommendations.

**Subdivision A 10.** Proposed revisions to this section would allow a broker-dealer to deliver a prospectus to an investor by electronic means if the investor opts into the broker-dealer's program for such delivery.

**Subdivision A 15.** This section proposes to combine provisions from former subsection E, as well as add other examples of known broker-dealer manipulative, deceptive, or fraudulent practices into one subdivision. By combining the

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# Regulations

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provisions into one subdivision, broker-dealers would be able to review and revise their supervision and compliance procedures by referencing most applicable regulations by reviewing one subdivision.

**Subdivision A 27-40.** These proposed new regulations also govern broker-dealer business conduct. Several of the proposed sections are revised provisions previously found in current subsections E 6 and G. Each additional proposed provision originated from other regulatory agencies and was reviewed and vetted by the Staff based upon its experience with broker-dealer audits and investigations.

**Subdivision B 6, 7 and 8.** This subdivision governs conduct by broker-dealer agents. The changes are proposed to conform to the changes to Subsection 280 A. Proposed subdivision 7 prohibits a broker-dealer agent from failing to comply with continuing education requirements. Proposed subdivision 8 prohibits broker-dealer agents from failing to properly identify the broker-dealer under which he or she is registered.

**Subsection C.** The current subsection is proposed to be deleted and moved to Rule 21 VAC 5-20-150. That section governs examination and qualification requirements for broker-dealer agents, and the Division felt it was more appropriate to associate with that section of the regulations. Former subsection D becomes the new subsection C.

**Subsection D.** Former subsection E was repealed and the provisions were moved to subdivision A 15, as described above.

**Subsection F.** Former subsection F, as proposed, is removed from Section 280 and is renumbered as Rule 21 VAC 5-20-285.

**Subsections G and H.** As previously stated, the provisions of subsection G are proposed to be moved to subdivision A 40. Subsection H already is covered in the Act and is proposed for repeal.

**Section 285. Customer Notice for Designated Securities.** This is not new language. The proposed change moves the language from subsection 280 F to the proposed new section 285. This notice is currently required to be provided by broker-dealers who offer and sell designated securities to their customers and therefore is not prohibited business conduct.

**Section 330. Sales at Financial Institutions.**

This regulation governs the offer and sale of securities at financial institutions. The proposed changes address current practices in which contractual arrangements exist between financial institutions (and their affiliates) and broker-dealers. The proposed amendments include a requirement that the proposed arrangement between the respective institutions be filed with the Division 90 days prior to the implementation of the agreement. Additional proposed changes define the regulatory duties under the securities act for each institution.

Proposed subsection C 1 c allows a financial institution affiliate to register with the Commission as a broker-dealer, which, in turn, will allow both the affiliate and the broker-dealer under this contractual arrangement to dually employ agents. This proposal is an exception to the prohibition against dual agent registration.

Proposed subsection C 7 adds additional prohibited conduct provisions only for those broker-dealers conducting business under these contractual relationships, including accepting compensation from financial institutions, identifying the appropriate affiliations to the public, failing to follow the contract terms, and using non-registered employees of the financial institution or any affiliate of the financial institution.

**Proposed Revisions to Chapter 30. Securities Registration.**

The Division proposes to amend section 80 to add the North American Securities Administrators Association, Inc.'s ("NASAA") Church Extension Fund Securities guidelines to the list of adopted statements of policy.

**Proposed Revisions to Chapter 40. Exempt Securities and Federal Covered Securities.**

Since the implementation of the National Securities Markets Improvement Act of 1996 ("NSMIA") preempted the registration requirements of a number of nationally registered securities, including those listed on certain national securities exchanges, the Division proposes to repeal several sections governing these entities from the regulations governing exempt securities. Sections 40, 60, 80, 90 are proposed for repeal. However, because certain options, warrants and rights to purchase the listed securities were not included when NSMIA was adopted, and are currently exempted by the regulations being repealed, new Rule 21 VAC 5-40-180 is proposed to preserve the exemption for the non-preempted securities listed on these exchanges.

**Proposed Revisions to Chapter 80. Investment Advisors.**

Many of the proposed revisions are minor, as described in the opening portion of this Order. There are proposed minor revisions in sections 190 and 200. More major proposed revisions are as follows:

**Section 145. Custody Rule.** The Division proposes to repeal the current investment advisor custody rule, section 145, and replace it with the NASAA model custody rule, which will be number 146. This will allow investment advisors who are registered in multiple jurisdictions to be governed by a uniform rule.

**Section 160. Recordkeeping requirements of investment advisors.** The Division proposes adding several new provisions to the investment advisor recordkeeping requirements to conform them to the proposed new custody rule in proposed section 146.

**Section 170. Supervision of investment advisor representatives.** The Division's proposed changes revise this

section to clarify that investment advisors are required to conduct an annual physical inspection of all business offices.

The Division recommends that the proposed revisions be considered for adoption. The Division also recommends that a hearing be held only if requested by those interested parties who specifically indicate that a hearing is necessary and the reasons therefore.

A copy of the proposed revisions may be obtained from the Division by interested parties by telephone, mail, or e-mail request and also can be found at the Division's website: [www.scc.virginia.gov/srf](http://www.scc.virginia.gov/srf). Any comments to the proposed rules must be received by March 1, 2013.

Accordingly, IT IS THEREFORE ORDERED THAT:

(1) The proposed revisions are appended hereto and made a part of the record herein.

(2) Comments or requests for hearing on the proposed revisions must be submitted in writing to Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218, on or before March 1, 2013. Requests for hearing shall state why a hearing is necessary and why the issues cannot be adequately addressed in written comments. All correspondence shall reference Case No. SEC-2012-00038. Interested persons desiring to submit comments electronically may do so by following the instructions available at the Commission's website: <http://www.scc.virginia.gov/case>.

(3) The proposed revisions shall be posted on the Commission's website at <http://www.scc.virginia.gov/case> and on the Division's website at <http://www.scc.virginia.gov/srf>. Interested persons also may request a copy of the proposed revisions from the Division by telephone, mail or e-mail.

AN ATTESTED COPY hereof, together with a copy of the proposed revisions, shall be sent by the Division to the Registrar of Regulations for publication in the Virginia Register.

AN ATTESTED COPY hereof shall be sent to the Director of the Division of Securities and Retail Franchising, who shall forthwith mail or e-mail a copy of this Order to any interested person(s) as he may designate.

## **21VAC5-10-40. Definitions.**

As used in this title, the following regulations and forms pertaining to securities, instructions and orders of the commission, the following meanings shall apply:

"Act" means the Securities Act contained in Chapter 5 (§ 13.1-501 et seq.) of Title 13.1 of the Code of Virginia.

"Applicant" means a person on whose behalf an application for registration or a registration statement is filed.

"Application" means all information required by the forms prescribed by the commission as well as any additional

information required by the commission and any required fees.

"Bank Holding Company Act of 1956" (12 USC § 1841 et seq.) means the federal statute of that name as now or hereafter amended.

"Boiler room tactics" mean operations or high pressure tactics utilized in connection with the promotion of speculative offerings by means of an intensive telephone campaign or unsolicited calls to persons not known by or having an account with the salesman or broker-dealer represented by him, whereby the prospective purchaser is encouraged to make a hasty decision to invest, irrespective of his investment needs and objectives.

"Breakpoint" means the dollar level of investment necessary to qualify a purchaser for a discounted sales charge on a quantity purchase of open-end management company shares.

"Commission" means State Corporation Commission.

"CRD" means the Central Registration Depository operated by FINRA as the central licensing and registration system for the United States securities industry and its regulators.

"Division" means Division of Securities and Retail Franchising of the Virginia State Corporation Commission.

"Federal covered advisor" means any person who is registered or required to be registered under § 203 of the Investment Advisers Act of 1940 as an "investment adviser."

"FINRA" means the Financial Industry Regulatory Authority, Inc. or any of its predecessors.

"IARD" means the Investment Advisor Registration Depository operated by FINRA as the central licensing and registration system for the United States securities industry and its regulators.

"Investment Advisers Act of 1940" (15 USC § 80b-1 et seq.) means the federal statute of that name as now or hereafter amended.

Notwithstanding the definition in § 13.1-501 of the Act, "investment advisor representative" as applied to a federal covered advisor only includes an individual who has a "place of business" (as that term is defined in rules or regulations promulgated by the SEC) in this Commonwealth and who either:

1. Is an "investment advisor representative" as that term is defined in rules or regulations promulgated by the SEC; or
2. a. Is not a "supervised person" as that term is defined in the Investment Advisers Act of 1940; and  
b. Solicits, offers or negotiates for the sale of or sells investment advisory services on behalf of a federal covered advisor.

"Investment Company Act of 1940" (15 USC § 80a-1 et seq.) means the federal statute of that name as now or hereafter amended.



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# Regulations

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"NASAA" means the North American Securities Administrators Association, Inc.

~~"NASD" means the National Association of Securities Dealers, Inc., or its successor, the Financial Industry Regulatory Authority, Inc. (FINRA).~~

"Notice" or "notice filing" means, with respect to a federal covered advisor or federal covered security, all information required by the regulations and forms prescribed by the commission and any required fee.

"Qualified investment advisor representative" means a person who possesses the requisite skill, knowledge, and experience to be designated to supervise other investment advisor representatives. A qualified investment advisor representative shall comply with the examination or qualification requirements pursuant to 21 VAC5-80-130.

"Registrant" means an applicant for whom a registration or registration statement has been granted or declared effective by the commission.

"SEC" means the United States Securities and Exchange Commission.

"Securities Act of 1933" (15 USC § 77a et seq.) means the federal statute of that name as now or hereafter amended.

"Securities Exchange Act of 1934" (15 USC § 78a et seq.) means the federal statute of that name as now or hereafter amended.

"Social media" means various online technologies that integrate social interaction and content creation using highly accessible and scalable communication techniques including, but not limited to, blogs, message boards, podcasts, texts, tweets, wikis, and vlogs. Examples of social media include, but are not limited to, Facebook, LinkedIn, Wikipedia, MySpace, Gather.com, YouTube, and Second Life.

"Solicitation" means an offer to one or more persons by any of the following means or as a result of contact initiated through any of these means:

1. Television, radio, social media, or any broadcast medium;
2. Newspaper, magazine, periodical, or any other publication of general circulation;
3. Poster, billboard, Internet posting, or other communication posted for the general public;
4. Brochure, flier, handbill, or similar communication, unless the offeror has a substantial preexisting business relationship or close family or personal relationship with each of the offerees;
5. Seminar or group meeting, unless the offeror has a substantial preexisting business relationship or close family or personal relationship with each of the offerees; or
6. Telephone, facsimile, mail, delivery service, or electronic communication, unless the offeror has a substantial preexisting business relationship or close family or personal relationship with each of the offerees.

**NOTICE:** The following forms used in administering the regulation were filed by the agency. The forms are not being published; however, online users of this issue of the Virginia Register of Regulations may click on the name of a form with a hyperlink to access it. The forms are also available from the agency contact or may be viewed at the Office of the Registrar of Regulations, General Assembly Building, 2nd Floor, Richmond, Virginia 23219.

## FORMS (21VAC5-10)

### Broker-Dealer and Agent Forms

~~Form BD - Uniform Application for Broker-Dealer Registration (2/98).~~

[Form BD - Uniform Application for Broker-Dealer Registration \(rev.1/08\).](#)

Form S.A.11 - Broker-Dealer's Surety Bond (rev. 7/99).

Form S.A.2 - Application for Renewal of a Broker-Dealer's Registration (rev. 7/99).

Form S.D.4 - Application for Renewal of Registration as an Agent of an Issuer (1997).

Form S.D.4.A - Non-NASD Broker-Dealer or Issuer Agents to be Renewed Exhibit (1974).

Form S.D.4.B - Non-NASD Broker-Dealer or Issuer Agents to be Canceled with no disciplinary history (1974).

Form S.D.4.C - Non-NASD Broker-Dealer or Issuer Agents to be Canceled with disciplinary history (1974).

~~Form BDW - Uniform Notice of Termination or Withdrawal of Registration as a Broker-Dealer (rev. 4/89).~~

[Form BDW - Uniform Notice of Termination or Withdrawal of Registration as a Broker-Dealer \(rev. 4/07\).](#)

~~Rev. Form U - Uniform Application for Securities Industry Registration or Transfer (11/97).~~

~~Rev. Form U - Uniform Termination Notice for Securities Industry Registration (11/97).~~

[Rev. Form U4 - Uniform Application for Securities Industry Registration or Transfer \(rev. 5/09\).](#)

[Rev. Form U5 - Uniform Termination Notice for Securities Industry Registration \(rev. 5/09\).](#)

### Investment Advisor and Investment Advisor Representative Forms

~~Form ADV - Uniform Application for Registration of Investment Advisors (rev. 1/01).~~

~~Form ADV-W - Notice of Withdrawal from Registration as an Investment Advisor (rev. 1/01).~~

Form ADV, Uniform Application for Registration of Investment Advisors (rev. 10/12).

[Part IA.](#)

[Part IB.](#)

[Part 2.](#)

## Part I Broker-Dealers

[Form ADV-W - Notice of Withdrawal from Registration as an Investment Advisor \(rev. 11/10\).](#)

Surety Bond Form (rev. 7/99).

~~Rev. Form U - Uniform Application for Securities Industry Registration or Transfer (11/97).~~

~~Rev. Form U - Uniform Termination Notice for Securities Industry Registration (11/97).~~

[Rev. Form U - Uniform U4 - Uniform Application for Securities Industry Registration or Transfer \(rev. 5/09\).](#)

[Rev. Form U - Uniform U5 - Uniform Termination Notice for Securities Industry Registration \(rev. 5/09\).](#)

Form S.A.3 - Affidavit for Waiver of Examination (rev. 7/99).

Form S.A.15 - Investment Advisor Representative Multiple Employment Agreement (eff. 7/07).

Form S.A.16 - Agent Multiple Employment Agreement (eff. 7/07).

~~Form IA XRF - Cross Reference Between ADV Part II, ADV Part 1A/1B, Schedule F, Contract and Brochure (eff. 7/10).~~

### Securities Registration and Notice Filing Forms

~~Form U - Uniform Application to Register Securities (7/81).~~

~~Form U - Uniform Consent to Service of Process (7/81).~~

~~Form U-a - Uniform Form of Corporate Resolution (rev. 7/99).~~

[Form U-1 - Uniform Application to Register Securities \(7/81\).](#)

[Form U-2 - Uniform Consent to Service of Process \(7/81\).](#)

[Form U-2-a - Uniform Form of Corporate Resolution \(rev. 7/99\).](#)

Form S.A.4 - Registration by Notification - Original Issue (rev. 11/96).

Form S.A.5 - Registration by Notification - Non-Issuer Distribution (rev. 11/96).

Form S.A.6 - Registration by Notification - Pursuant to 21VAC5-30-50 Non-Issuer Distribution "Secondary Trading" (1989).

Form S.A.8 - Registration by Qualification (7/91).

~~Form S.A.10 - Request for Refund Affidavit (Unit Investment Trust) (rev. 7/99).~~

Form S.A.12 - Escrow Agreement (1971).

Form S.A.13 - Impounding Agreement (rev. 7/99).

Form VA - Parts 1 and 2 - Notice of Limited Offering of Securities (rev. 11/96).

Form NF - Uniform Investment Company Notice Filing (4/97).

### 21VAC5-20-10. Application for registration as a broker-dealer.

A. Application for registration as a broker-dealer by a ~~NASD~~ FINRA member shall be filed in compliance with all requirements of ~~the NASAA/NASD Central Registration Depository system~~ CRD and in full compliance with forms and regulations prescribed by the commission and shall include all information required by such forms.

B. An application shall be deemed incomplete for ~~purposes of applying for~~ registration as a broker-dealer by a ~~NASD~~ FINRA member unless the applicant submits the following executed forms, fee, and information ~~are submitted~~:

1. Form BD.
2. Statutory fee payable to ~~the NASD~~ FINRA in the amount of \$200 pursuant to § 13.1-505 F of the Act.
3. ~~Any other information the commission may require~~ Evidence of approved FINRA membership.
4. Evidence of at least one qualified agent registration pending on CRD.
5. Any other information the commission may require.

C. Application for registration as for any other non-FINRA member broker-dealer shall be filed with the commission at its Division of Securities and Retail Franchising or such other entity designated by the commission on and in full compliance with forms prescribed by the commission and shall include all information required by such forms.

D. An application shall be deemed incomplete for ~~purposes of applying for~~ registration as a non-FINRA member broker-dealer unless the applicant submits the following executed forms, fee, and information ~~are submitted~~ to the commission:

1. Form BD.
2. Statutory fee payable to the Treasurer of Virginia in the amount of \$200 pursuant to § 13.1-505 F of the Act.
3. Financial statements required by 21VAC5-20-80.
4. Evidence of exam requirements for principals required by 21VAC5-20-70.
5. ~~Any other information the commission may require~~ Evidence of at least one qualified individual with an agent registration pending with the division on behalf of the broker-dealer.
6. Any other information the commission may require.

E. The commission shall either grant or deny each application for registration within 30 days after it is filed. However, if additional time is needed to obtain or verify information regarding the application, the commission may extend such period as much as 90 days by giving written notice to the applicant. No more than three such extensions may be made by the commission on any one application. An

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# Regulations

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extension of the initial 30-day period, not to exceed 90 days, shall be granted upon written request of the applicant.

## **21VAC5-20-30. Renewals.**

A. To renew its registration, a ~~NASD~~ FINRA member broker-dealer will be billed by ~~the NASAA/NASD Central Registration Depository~~ CRD the statutory fee of \$200 prior to the annual expiration date. A ~~renewal~~ of registration renewal shall be granted as a matter of course upon payment of the proper fee unless the registration was, or the renewal would be, subject to revocation under § 13.1-506.

B. Any ~~other~~ non-FINRA broker-dealer shall file with the commission at its Division of Securities and Retail Franchising the following items at least 30 days prior to the expiration of registration-:

1. Application for Renewal of a Broker-Dealer's Registration (Form S.A.2) accompanied by the statutory fee of \$200.

2. Financial Statements:

a. The most recent certified financial statements prepared by an independent accountant in accordance with generally accepted accounting principles, as promulgated by the American Institute of Certified Public Accountants. "Certified Financial Statements," "Financial Statements" and "Independent Accountant" shall have the same definition as those terms are defined under subsection B of 21VAC5-20-80.

b. If the most recent certified financial statements precede the date of renewal by more than 120 days, the registrant must submit: ~~(1) The~~ the certified financial statements required by subdivision 2 a of this subsection within 60 days after the date of the financial statements; ~~and.~~

~~(2) A copy of the most recent Part II or Part II A filing of Form X-17A-5 prepared in accordance with Securities Exchange Act Rule 17a-5 (17 CFR 240.17a-5).~~

c. Whenever the commission so requires, an interim financial report shall be filed as of the date and within the period specified in the commission's request.

## **21VAC5-20-40. Updates and amendments.**

A. A ~~NASD~~ FINRA member broker-dealer shall update its Form BD as required by Form BD instructions and shall file all such amendments on and in compliance with all requirements of ~~the NASAA/NASD Central Registration Depository system~~ CRD and in full compliance with the regulations prescribed by the commission.

B. Any ~~other~~ non-FINRA member broker-dealer shall update its Form BD as required by Form BD instructions and shall file all such amendments with the commission at its Division of Securities and Retail Franchising.

C. All broker-dealers must have at least one agent registered in Virginia as long as the firm maintains its registration.

## **21VAC5-20-50. Termination of registration.**

A. When a ~~NASD~~ FINRA member broker-dealer desires to terminate its registration, it shall file Form BDW in compliance with all requirements of ~~the NASAA/NASD Central Registration Depository system~~ CRD and in full compliance with the regulations prescribed by the ~~Commission~~ commission.

B. Any ~~other~~ non-FINRA member broker-dealer shall file a Form BDW with the ~~Commission~~ commission at its Division of Securities and Retail Franchising.

## **21VAC5-20-80. Financial statements and reports.**

A. All financial statements required for registration of broker-dealers shall be prepared in accordance with generally accepted accounting principles, as promulgated by the American Institute of Certified Public Accountants.

B. Definitions:

"Certified financial statements" ~~shall be defined as~~ means those financial statements examined and reported upon with an opinion expressed by an independent accountant and shall include at least the following information:

1. Date of report, manual signature, city and state where issued, and identification without detailed enumeration of the financial statements and schedules covered by the report;

2. Representations as to whether the audit was made in accordance with generally accepted auditing standards and designation of any auditing procedures deemed necessary by the accountant under the circumstances of the particular case which may have been omitted, and the reason for their omission; nothing in this section however shall be construed to imply authority for the omission of any procedure which independent accountants would ordinarily employ in the course of an audit for the purpose of expressing the opinions required under this section;

3. Statement of the opinion of the accountant in respect to the financial statements and schedules covered by the report and the accounting principles and practices reflected therein, and as the consistency of the application of the accounting principles, or as to any changes in such principles which would have a material effect on the financial statements;

4. Any matters to which the accountant takes exception shall be clearly identified, the exemption thereto specifically and clearly stated, and, to the extent practicable, the effect of each such exception on the related financial statements given.

"Financial statements" ~~shall be defined as~~ means those reports, schedules and statements, prepared in accordance with generally accepted accounting principles and which contain at least the following information unless the context otherwise dictates:

1. Statement of Financial Condition or Balance Sheet;

2. Statement of Income;
3. Statement of ~~Changes in Financial Position~~ Cash Flows;
4. Statement of Changes in Stockholder's/Partner's/Proprietor's/Member's Equity;
5. Statement of Changes in Liabilities Subordinated to Claims of General Creditors;
6. Schedule of the Computation of Net Capital Under Rule 15c3-1 of the Securities Exchange Act of 1934 (17 CFR 240.15c3-1);
7. Schedule of the Computation for Determination of the Reserve Requirements under Exhibit A of Rule 15c3-3 and Information Relating to the Possession and Control Requirements under Rule 15c3-3 of the Securities Exchange Act of 1934 (17 CFR 240.15c3-3).

"Independent accountant" ~~shall be defined as~~ means any certified public accountant in good standing and entitled to practice as such under the laws of the accountant's principal place of business or residence, and who is, in fact, not controlled by, or under common control with, the entity or person being audited; ~~for,~~

1. ~~For~~ purposes of this definition, an accountant will be considered not independent with respect to any person or any of its parents, its subsidiaries, or other affiliates in which, during the period of the accountant's professional engagements to examine the financial statements being reported on ~~or at~~ the date of the report, the accountant or the firm or a member thereof had, or was committed to acquire, any direct financial interest or any material indirect financial interest; or in which, during the period of the accountant's professional ~~engagement~~ engagements to examine the financial statements being reported on, at the date of the report or during the period covered by the financial statements, the accountant or the firm or a member thereof was connected as a promoter, underwriter, voting trustee, director, officer, or employee, ~~except that a~~

2. A firm will not be deemed not independent in regard to a particular person if a former officer or employee of such person is employed by the firm and such individual has completely disassociated himself from the person and its affiliates covering any period of employment by the person.

3. For partners in the firm participating in the audit or located in an office of the firm participating in a significant portion of the audit; and in determining whether an accountant may in fact be not independent with respect to a particular person, the commission will give appropriate consideration to all relevant circumstances, including evidence bearing on all relationships between the accountant and that person or any affiliate thereof, and will not confine itself to the relationships existing in connection with the filing of reports with the commission.

"Review of financial statements" ~~shall be defined as~~ means those financial statements ~~prepared~~ reviewed by an

independent accountant, and shall include at least the following:

1. Date of report, manual signature, city and state where issued, and identification without detailed enumeration of the financial statements and schedules covered by the report;
2. Representations that the review was performed in accordance with standards established by the American Institute of Certified Public Accountants;
3. Representations that the accountant is not aware of any material modification that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles, other than those modifications, if any, indicated in the accountant's report.

"Unaudited financial statements" ~~shall be defined as~~ means those financial statements prepared in a format acceptable to the commission not accompanied by the statements and representations as set forth in the definitions of "certified financial statements" or "review of financial statements" of this subsection, and shall include an oath or affirmation that such statement or report is true and correct to the best knowledge, information, and belief of the person making such oath or affirmation; ~~such. The~~ oath or affirmation shall be made before a person authorized to administer such the oath or affirmation, and shall be made by an officer of the entity for whom the financial statements were prepared.

C. Requirements for broker-dealers:

1. Every broker-dealer applicant ~~that is~~ subject to the Securities Exchange Act of 1934 shall file with the commission at its Division of Securities and Retail Franchising upon its request any financial information ~~that is~~ required to be provided to the SEC, or its designee, under the Securities Exchange Act of 1934.

2. All other broker-dealer applicants not subject to subdivision 1 of this subsection, unless exempted under subdivision 3 of this subsection, shall file financial statements as of a date within 90 days prior to the date of filing its application for registration, ~~which. The~~ statements need not be audited provided that the applicant shall also file audited financial statements as of the end of the most recent fiscal year end.

3. Those broker-dealer applicants ~~which have been~~ in operation for a period of time less than 12 months, and for which audited financial statements have not been prepared or are not available, and ~~which~~ are not registered with the SEC, a national securities association or a national securities exchange, shall be permitted to file ~~a review of~~ financial statements ~~prepared~~ reviewed by an independent accountant provided the following conditions are met:

- a. ~~Such The~~ financial statements shall be as of a date within 30 days prior to the date of filing an application for registration; and

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# Regulations

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b. ~~Such~~ The financial statements shall be ~~prepared~~ reviewed by an independent accountant as defined under subsection B of this section and in accordance with the definitions of "financial statements" and "review of financial statements" in subsection B and in accordance with subdivision 3 of this subsection.

## Part II Broker-Dealer Agents

### **21VAC5-20-90. Application for registration as a broker-dealer agent.**

A. Application for registration as an agent of a ~~NASD FINRA~~ member shall be filed on and in compliance with all requirements of ~~the NASAA/NASD Central Registration Depository system CRD~~ and in full compliance with the forms and regulations prescribed by the commission. The application shall include all information required by such forms.

An application shall be deemed incomplete for ~~purposes of applying for~~ registration as a broker-dealer agent unless the applicant submits the following executed forms, fee, and information ~~are submitted~~:

1. Form ~~U-4~~ U4.
2. The statutory fee made payable to FINRA in the amount of \$30. ~~The check must be made payable to the NASD.~~
3. Evidence in the form of a ~~NASD FINRA~~ exam report of passing within the two-year period immediately preceding the date of the application: (i) the Uniform Securities Agent State Law Examination, Series 63; (ii) the Uniform Combined State Law Examination, Series 66; or (iii) a similar examination in general use by securities administrators which, after reasonable notice and subject to review by the commission, the Director of the Division of Securities and Retail Franchising designates.
4. Any other information the commission may require.

B. Application for registration for ~~all other~~ non-FINRA member broker-dealer agents shall be filed on and in compliance with all requirements and forms prescribed by the commission.

An application shall be deemed incomplete for ~~purposes of applying for~~ registration as a broker-dealer agent unless the applicant submits the following executed forms, fee, and information ~~are submitted~~:

1. Form ~~U-4~~ U4.
2. The statutory fee in the amount of \$30. The check must be made payable to the Treasurer of Virginia.
3. Evidence in the form of a ~~NASD FINRA~~ exam report of passing within the two-year period immediately preceding the date of the application: (i) the Uniform Securities Agent State Law Examination, Series 63; (ii) the Uniform Combined State Law Examination, Series 66; or (iii) a similar examination in general use by securities administrators which, after reasonable notice and subject to

review by the commission, the Director of the Division of Securities and Retail Franchising designates.

4. Any other information the commission may require.

C. The commission shall either grant or deny each application for registration within 30 days after it is filed. However, if additional time is needed to obtain or verify information regarding the application, the commission may extend such period as much as 90 days by giving written notice to the applicant. No more than three such extensions may be made by the commission on any one application. An extension of the initial 30-day period, not to exceed 90 days, shall be granted upon written request of the applicant.

### **21VAC5-20-95. Employment of an agent by more than one broker-dealer.**

A. In accordance with § 13.1-504 B of the Act, an agent may be employed by more than one broker-dealer if all of the following conditions are satisfied:

1. Each employing broker-dealer is under common ownership and control as defined in subsection B of this section or as provided in subdivision C 2 c under 21VAC5-20-330.
2. Each employing broker-dealer is registered in accordance with 21VAC5-20-10.
3. Each employing broker-dealer consents in writing to the employment of the agent by each of the other employing broker-dealers.
4. Each employing broker-dealer agrees to be responsible for the employment activity of the agent.
5. The agent is registered in accordance with 21VAC5-20-90 by and on behalf of each employing broker-dealer.
6. Each employing broker-dealer executes an Agent Multiple Employment Agreement (Form S.A.16), and the executed agreement is filed with the commission at its Division of Securities and Retail Franchising prior to the agent transacting business in Virginia on behalf of such broker-dealer.
7. A new Agent Multiple Employment Agreement is executed and filed with the commission at its Division of Securities and Retail Franchising within 15 days after any information in a current agreement on file with the commission becomes materially deficient, incomplete or inaccurate.

B. The term "common ownership and control" as used in this section means ~~possession of the same individual or individuals possess~~ at least a 50% ownership interest in each employing broker-dealer ~~by the same individual or individuals.~~

### **21VAC5-20-110. Renewals.**

A. To renew the ~~registration(s)~~ registration or registrations of its broker-dealer ~~agent(s)~~ agent or agents, a ~~NASD FINRA~~ member broker-dealer will be billed by ~~the NASAA/NASD Central Registration Depository system CRD~~ the statutory fee

of \$30 per broker-dealer agent. A renewal of ~~registration(s)~~ registration or registrations shall be granted as a matter of course upon payment of the proper ~~fee(s)~~ fee or fees unless the registration was, or the renewal would be, subject to revocation under § 13.1-506 of the Code of Virginia.

B. ~~Any other~~ A non-FINRA member broker-dealer shall file with the commission at its Division of Securities and Retail Franchising the following items at least 30 days prior to the expiration of registration.

1. Agents to be Renewed (Form S.D.4.A) accompanied by the statutory fee of \$30 for each agent whose registration is to be renewed. The check must be made payable to the Treasurer of Virginia.
2. If applicable, Agents to be Canceled with clear records (Form S.D.4.B).
3. If applicable, Agents to be Canceled without clear records (Form S.D.4.C).

**21VAC5-20-120. Updates and amendments.**

A broker-dealer agent shall amend or update Form ~~U-4~~ U4 as required by the "Amendment Filings" provisions set forth under "How to Use Form ~~U-4~~ U4." All filings shall be made ~~with the NASAA/NASD Central Registration Depository system~~ on CRD for agents of ~~NASD~~ FINRA member firms or with the commission at its Division of Securities and Retail Franchising for all other broker-dealer agents.

**21VAC5-20-130. Termination of registration.**

A. When a broker-dealer agent terminates ~~a connection~~ his registration with a broker-dealer, or a broker-dealer terminates ~~connection with an agent~~ agent's registration, the broker-dealer shall file notice of such termination on Form ~~U-5~~ U5 within 30 calendar days of the date of termination. All filings shall be made ~~with the NASAA/NASD Central Registration Depository system~~ on CRD for agents of ~~NASD~~ FINRA member firms or with the commission at its Division of Securities and Retail Franchising for all other broker-dealer agents.

B. If an agent learns that the broker-dealer has not filed the appropriate notice, the agent may file notice with the commission at its Division of Securities and Retail Franchising. The commission may terminate the agent's registration if the commission determines that a broker-dealer (i) is no longer in existence, (ii) has ceased conducting securities business, or (iii) cannot reasonably be located.

**21VAC5-20-150. Examination/qualification.**

A. An individual applying for registration as a broker-dealer agent shall be required to show evidence of passing within the two-year period immediately preceding the date of the application: (i) the Uniform Securities Agent State Law Examination, Series 63; (ii) the Uniform Combined State Law Examination, Series 66; or (iii) a similar examination in general use by securities administrators which, after reasonable notice and subject to review by the commission,

the Director of the Division of Securities and Retail Franchising designates.

B. Any individual who ~~has met~~ meets the qualifications set forth in subsection A of this section and ~~has been~~ is registered in any state jurisdiction requiring registration within the two-year period immediately preceding the date of the filing of an application shall not be required to comply with the examination requirement set forth in subsection A of this section, except that the commission may require additional examinations for any individual found to have violated any federal or state securities laws.

C. Any registered agent or agent in the process of applying for registration renewal shall further demonstrate his business knowledge by complying with the applicable continuing education requirements set forth in any of the following:

1. Rule 1250 of the FINRA By Laws, as such provisions existed on October 17, 2011;
2. Rule 345 A of the NYSE Rules, as such provisions existed on July 1, 1995;
3. Rule G-3(h) of the Municipal Securities Rulemaking Board, as such provisions existed on July 1, 1995;
4. Rule 341 A of the NYSE Market Rules, as such provisions existed on May 14, 2012;
5. Rule 9.3A of the Chicago Board of Options Exchange, Inc., as such provisions existed on July 1, 1995; or
6. Article VI, Rule 11 of the Chicago Stock Exchange, Inc., as such provisions existed on July 1, 1995.

Part III  
Agents of the Issuer

**21VAC5-20-160. Application for registration as an agent of the issuer.**

A. Application for registration as an agent of the issuer shall be filed on and in compliance with all requirements and forms prescribed by the commission.

B. An application shall be deemed incomplete ~~for purposes of applying~~ for registration as an agent of the issuer unless the following executed forms, fee and information are submitted:

1. Form ~~U-4~~ U4.
2. The statutory fee in the amount of \$30. The check must be made payable to the Treasurer of Virginia.
3. Evidence in the form of a ~~NASD~~ FINRA exam report of passing within the two-year period immediately preceding the date of the application: (i) the Uniform Securities Agent State Law Examination, Series 63; (ii) the Uniform Combined State Law Examination, Series 66, ~~and the General Securities Representative Examination, Series 7;~~ or (iii) a similar examination in general use by securities administrators which, after reasonable notice and subject to review by the commission, the Director of the Division of Securities and Retail Franchising designates.

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# Regulations

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4. Any individual who meets the qualifications set forth in subdivision B 3 of this section and has been registered in any state jurisdiction as an agent requiring registration within the two-year period immediately preceding the date of the filing of an application shall not be required to comply with the examination requirements requirement set forth in subdivision B 3 of this section, except that the Director of Securities and Retail Franchising may require additional examinations for any individual found to have violated any federal or state securities laws.

5. Any other information the commission may require.

C. The commission shall either grant or deny each application for registration within 30 days after it is filed. However, if additional time is needed to obtain or verify information regarding the application, the commission may extend such period as much as 90 days by giving written notice to the applicant. No more than three such extensions may be made by the commission on any one application. An extension of the initial 30-day period, not to exceed 90 days, shall be granted upon written request of the applicant.

## **21VAC5-20-180. Renewals.**

An issuer, on behalf of its ~~agent(s)~~ agent or agents, shall file with the ~~Commission~~ commission at its Division of Securities and Retail Franchising at least 30 days prior to the expiration of registration ~~an Agents to be Renewed Form a registration renewal form~~ (Form S.D.4) accompanied by the statutory fee of \$30 for each agent whose registration is to be renewed. The check must be made payable to the Treasurer of Virginia.

## **21VAC5-20-190. Updates and amendments.**

An agent of the issuer shall amend or update ~~his/her~~ his Form ~~U-4~~ U4 as required by the "Amendment Filings" provisions set forth under "How to Use Form ~~U-4~~ U4." Filings shall be made with the ~~Commission~~ commission at its Division of Securities and Retail Franchising.

## **21VAC5-20-200. Termination of registration.**

When an agent of the issuer terminates ~~a connection~~ his registration with an issuer, or an issuer terminates ~~connection~~ with an agent agent's registration, the issuer shall file notice of such termination on Form ~~U-5~~ U5 within 30 calendar days of the date of termination. Filings shall be made with the ~~Commission~~ commission at its Division of Securities and Retail Franchising.

## **21VAC5-20-220. Examination/qualification; waiver of examination requirement.**

A. Except as described in subsection B of this section, an individual applying for registration as an agent of the issuer shall be required to provide evidence in the form of a ~~NASD~~ FINRA exam report of passing: (i) the Uniform Securities Agent State Law Examination, Series 63; (ii) the Uniform Combined State Law Examination, Series 66, ~~and the General Securities Representative Examination, Series 7~~; or (iii) a similar examination in general use by securities administrators which, after reasonable notice and subject to

review by the commission, the Director of the Division of Securities and Retail Franchising designates.

B. The commission may, in a registered offering ~~that is~~ not being made to the general public or in a Small Company Offering Registration, waive the examination requirement for an officer or director of an issuer that is a corporation, or a general partner of an issuer ~~that is~~ of a limited partnership or a manager of an issuer that is a limited liability company who:

1. Will receive no commission or similar remuneration directly or indirectly in connection with the offer or sale of the issuer's securities; and
2. In the case of a small company offering registration, agrees to deliver to each prospective purchaser of a security to be issued by such issuer, at or before the time the offering document is required to be delivered, a copy of "A Consumer's Guide to Small Business Investments" prepared by NASAA (see CCH NASAA Reports ¶3676) and the application to register the agent is accompanied by an executed Affidavit Regarding Offers of Small Company Offering Registration (SCOR) Securities by Issuer Agents.

### Part IV

#### Broker-Dealer and Agent Regulations

## **21VAC5-20-230. Notice of civil, criminal, administrative or arbitrational action.**

A. An applicant or a registrant shall notify the commission:

1. Within 30 calendar days of the date any complaint, pleading or notice is served or received giving notice of any civil, criminal or administrative charge or any arbitration proceeding or any formal order of investigation, including any such charge, proceeding or order by a self-regulatory organization registered under the Securities Exchange Act of 1934, against the applicant or registrant which directly or indirectly relates to the registration or sale of securities to any activity as a broker-dealer or agent or to any activity in which a breach of trust is alleged.
2. Within 30 calendar days of the date filed, any answer, reply or response to the complaint, pleading or notice referred to in subdivision 1 of this subsection.
3. Within 30 calendar days of the date of any decision, order or sanction rendered, or any appeal filed with respect to such decision, order or sanction, in regard to the complaint, pleading or notice referred to in subdivision 1 of this subsection.

B. A registrant who is a ~~NASD~~ FINRA member broker-dealer or is associated with a ~~NASD~~ FINRA member broker-dealer may file the notification required by subsection A of this section either with the commission's Division of Securities and Retail Franchising or on and in compliance with all requirements of ~~the NASAA/NASD Central Registration Depository system~~ CRD.

C. One copy of any item referred to in subdivision 1, 2 or 3 of this subsection shall be filed with the commission promptly following a request for same.

**21VAC5-20-260. Supervision of agents.**

A. A broker-dealer shall be responsible for the acts, practices, and conduct of its agents in connection with the sale of securities until such time as the agents have been properly terminated as provided by ~~21VAC5-20-60~~ 21VAC5-20-130.

B. Every broker-dealer shall exercise diligent supervision over the securities activities of all of its agents.

C. Every agent employed by a broker-dealer shall be subject to the supervision of a supervisor principal designated by such broker-dealer. ~~The supervisor may be the broker dealer in the case of a sole proprietor, or a partner, officer, office manager or any qualified agent in the case of entities other than sole proprietorships. All designated supervisors principals designated by the broker-dealer shall exercise reasonable supervision over the securities activities of all of the agents under their responsibility.~~

D. As part of its responsibility under this section, every broker-dealer shall establish, maintain and enforce written procedures, a copy of which shall be kept in each business office, which shall (i) set forth the procedures adopted by the broker-dealer to comply with the Act and regulations, including but not limited to the following duties imposed by this section, and (ii) state at which business office or offices the broker-dealer keeps and maintains the records required by 21VAC5-20-240:

1. The review and written approval by the designated supervisor of the opening of each new customer account;
2. The frequent examination of all customer accounts to detect and prevent irregularities or abuses;
3. The prompt review and written approval by a designated supervisor of all securities transactions by agents and all correspondence pertaining to the solicitation or execution of all securities transactions by agents;
4. The review and written approval by the designated supervisor of the delegation by any customer of discretionary authority with respect to the customer's account to the broker-dealer or to a stated agent or agents of the broker-dealer and the prompt written approval of each discretionary order entered on behalf of that account; and
5. The prompt review and written approval of the handling of all customer complaints.

E. Every broker-dealer who has designated more than one ~~supervisor principal~~ pursuant to subsection C of this section shall designate ~~from among its partners, officers, or other qualified agents,~~ a person principal or group of persons principals, independent from ~~the designated business supervisor or supervisors~~ those that conduct direct agent supervision who shall: supervise and periodically review the

activities of the principals designated pursuant to subsection C of this section.

- ~~1. Supervise and periodically review the activities of these supervisors designated pursuant to subsection C of this section; and~~
- ~~2. No less often than annually conduct a physical inspection of each business office of the broker dealer to insure that the written procedures and compliance requirements are enforced.~~

~~All supervisors principals~~ designated pursuant to ~~this subsection~~ subsections C and E shall exercise reasonable supervision over ~~the supervisors~~ those individuals under their responsibility to ensure compliance with ~~this subsection~~ these subsections.

F. Every broker-dealer shall no less often than annually conduct a physical inspection of each business office of the broker-dealer to ensure (i) the agent or agents at the respective business office have not violated any statutory provisions of the Act or regulations promulgated by the commission and (ii) the written procedures and compliance requirements of the broker-dealer are enforced.

For purposes of this section, the term "principal" means, but is not limited to, an individual engaged directly in (i) the management, direction, or supervision on a regular or continuous basis on behalf of such broker-dealer of the following activities: sales, training, research, investment advice, underwriting, private placements, advertising, public relations, trading, maintenance of books or records, financial operations; or (ii) the training of persons associated with such broker-dealer for the management, direction, or supervision on a regular or continuous basis of any such activities.

**21VAC5-20-280. Prohibited business conduct.**

A. Every broker-dealer and agent registered or required to be registered pursuant to § 13.1-505 of the Act is required to observe high standards of commercial honor and just and equitable principles of trade in the conduct of his business. The acts and practices described below in this rule, among others, are considered contrary to such standards and may constitute grounds for denial, suspension, or revocation of registration or such other action authorized by the Act. The conduct set forth in subsections A through C of this section is not exhaustive. No broker-dealer who is registered or required to be registered shall:

1. Engage in a pattern of unreasonable and unjustifiable delays in the delivery of securities purchased by any of its customers or in the payment upon request of free credit balances reflecting completed transactions of any of its customers, or take any action that directly or indirectly interferes with a customer's ability to transfer his account; provided that the account is not subject to any lien for moneys owed by the customer or other bona fide claim, including, but not limited to, seeking a judicial order or decree that would bar or restrict the submission, delivery or



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# Regulations

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acceptance of a written request from a customer to transfer his account;

2. Induce trading in a customer's account which is excessive in size or frequency in view of the financial resources and character of the account;

3. Recommend to a customer the purchase, sale or exchange of any security without reasonable grounds to believe that the recommendation is suitable for the customer ~~based upon reasonable inquiry concerning the customer's investment objectives, financial situation, risk tolerance and needs, and any other relevant information known by the broker-dealer.~~ The reasonable basis to recommend any such transaction to a customer shall be based upon the risks associated with a particular security, and the information obtained through the diligence and inquiry of the broker-dealer to ascertain the customer's investment profile. A customer's investment profile includes, but is not limited to, the customer's investment objectives, financial situation, risk tolerance and needs, tax status, age, other investments, investment experience, investment time horizon, liquidity needs, and any other relevant information known by the broker-dealer or of which the broker-dealer is otherwise made aware in connection with such recommendation;

4. Execute a transaction on behalf of a customer without authority to do so or, when securities are held in a customer's account, fail to execute a sell transaction involving those securities as instructed by a customer, without reasonable cause;

5. Exercise any discretionary power in effecting a transaction for a customer's account without first obtaining written discretionary authority from the customer, unless the discretionary power relates solely to the time or price for the execution of orders;

6. Execute any transaction in a margin account without securing from the customer a properly executed written margin agreement promptly after the initial transaction in the account, or fail, prior to or at the opening of a margin account, to disclose to a noninstitutional customer the operation of a margin account and the risks associated with trading on margin at least as comprehensively as required by ~~NASD~~ FINRA Rule ~~2341~~ 2264;

7. Fail to segregate customers' free securities or securities held in safekeeping;

8. Hypothecate a customer's securities without having a lien thereon unless the broker-dealer secures from the customer a properly executed written consent promptly after the initial transaction, except as permitted by Rules of the SEC;

9. Enter into a transaction with or for a customer at a price not reasonably related to the current market price of a security or receiving an unreasonable commission or profit;

10. Fail to furnish to a customer purchasing securities in an offering, no later than the date of confirmation of the transaction, either a final prospectus or a preliminary prospectus and an additional document, which together include all information set forth in the final prospectus, by the following means: (i) hard copy prospectus delivery or (ii) electronic prospectus delivery.

When a broker-dealer delivers a prospectus electronically, it must first allow its clients to affirmatively opt-in to the program. The acknowledgement of the opt-in may be by any written or electronic means, but the broker-dealer is required to acknowledge the opt-in. For any client that chooses not to opt-in to electronic delivery, the broker-dealer shall continue to deliver to the client a hard copy of the prospectus;

11. Introduce customer transactions on a "fully disclosed" basis to another broker-dealer that is not exempt under § 13.1-514 B 6 of the Act;

12. a. Charge unreasonable and inequitable fees for services performed, including miscellaneous services such as collection of moneys due for principal, dividends or interest, exchange or transfer of securities, appraisals, safekeeping, or custody of securities and other services related to its securities business;

b. Charge a fee based on the activity, value or contents (or lack thereof) of a customer account unless written disclosure pertaining to the fee, which shall include information about the amount of the fee, how imposition of the fee can be avoided and any consequence of late payment or nonpayment of the fee, was provided no later than the date the account was established or, with respect to an existing account, at least 60 days prior to the effective date of the fee;

13. Offer to buy from or sell to any person any security at a stated price unless the broker-dealer is prepared to purchase or sell at the price and under such conditions as are stated at the time of the offer to buy or sell;

14. Represent that a security is being offered to a customer "at a market" or a price relevant to the market price unless the broker-dealer knows or has reasonable grounds to believe that a market for the security exists other than that made, created or controlled by the broker-dealer, or by any person for whom he is acting or with whom he is associated in the distribution, or any person controlled by, controlling or under common control with the broker-dealer;

15. ~~Effect any transaction in or Offer~~, induce the purchase or sale of, or effect any transaction in, any security by means of any manipulative, deceptive or fraudulent device, practice, plan, program, design or contrivance, which may include but not be limited to:

a. Effecting any transaction in a security which involves no change in the beneficial ownership thereof;

b. Entering an order or orders for the purchase or sale of any security with the knowledge that an order or orders of substantially the same size, at substantially the same time and substantially the same price, for the sale of any security, has been or will be entered by or for the same or different parties for the purpose of creating a false or misleading appearance of active trading in the security or a false or misleading appearance with respect to the market for the security; however, nothing in this subdivision shall prohibit a broker-dealer from entering bona fide agency cross transactions for its customers;

c. Effecting, alone or with one or more other persons, a series of transactions in any security creating actual or apparent active trading in the security or raising or depressing the price of the security, for the purpose of inducing the purchase or sale of the security by others;

d. Entering into a transaction with a customer in any security at an unreasonable price or at a price not reasonably related to the current market price of the security or receiving an unreasonable commission or profit;

e. Contradicting or negating the importance of any information contained in a prospectus or other offering materials that would deceive or mislead or using any advertising or sales presentation in a deceptive or misleading manner;

f. Leading a customer to believe that the broker-dealer or agent is in possession of material, nonpublic information that would affect the value of the security;

g. Engaging in a pattern or practice of making contradictory recommendations to different investors of similar investment objective for some to sell and others to purchase the same security, at or about the same time, when not justified by the particular circumstances of each investor;

h. Failing to make a bona fide public offering of all the securities allotted to a broker-dealer for distribution by, among other things, (i) transferring securities to a customer, another broker-dealer or a fictitious account with the understanding that those securities will be returned to the broker-dealer or its nominees or (ii) parking or withholding securities;

i. Effecting any transaction in or inducing the purchase or sale of any security by means of any manipulative, deceptive, or other fraudulent device or contrivance including but not limited to the use of boiler room tactics or use of fictitious or nominee accounts;

j. Failing to comply with any prospectus delivery requirements promulgated under federal law or the Act;

k. Failing to promptly provide the most current prospectus or the most recently filed periodic report filed under § 13 of the Securities Exchange Act when requested to do so by a customer;

l. Marking any order tickets or confirmations as unsolicited when in fact the transaction was solicited; or

m. Failing to comply with the following provisions in connection with the solicitation of a purchase or sale of a designated security:

(1) Failing to disclose to the customer the bid and ask price at which the broker-dealer effects transactions with individual, retail customers of the designated security as well as its spread in both percentage and dollar amounts at the time of solicitation and on the trade confirmation documents; or

(2) Failing to include with the confirmation, the notice disclosure contained under 21VAC5-20-285, except the following shall be exempt from this requirement:

(a) Transactions in which the price of the designated security is \$5.00 or more, exclusive of costs or charges; however, if the designated security is a unit composed of one or more securities, the unit price divided by the number of components of the unit other than warrants, options, rights, or similar securities must be \$5.00 or more, and any component of the unit that is a warrant, option, right, or similar securities, or a convertible security must have an exercise price or conversion price of \$5.00 or more;

(b) Transactions that are not recommended by the broker-dealer or agent;

(c) Transactions by a broker-dealer: (i) whose commissions, commission equivalents, and mark-ups from transactions in designated securities during each of the preceding three months, and during 11 or more of the preceding 12 months, did not exceed 5.0% of its total commissions, commission-equivalents, and mark-ups from transactions in securities during those months; and (ii) who has not executed principal transactions in connection with the solicitation to purchase the designated security that is the subject of the transaction in the preceding 12 months; and

(d) Any transaction or transactions that, upon prior written request or upon its own motion, the commission conditionally or unconditionally exempts as not encompassed within the purposes of this section;

(3) For purposes of this section, the term "designated security" means any equity security other than a security:

(a) Registered, or approved for registration upon notice of issuance, on a national securities exchange and makes transaction reports available pursuant to 17 CFR 11Aa3-1 under the Securities Exchange Act of 1934;

(b) Authorized, or approved for authorization upon notice of issuance, for quotation in the NASDAQ system;

(c) Issued by an investment company registered under the Investment Company Act of 1940;

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# Regulations

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(d) That is a put option or call option issued by The Options Clearing Corporation; or

(e) Whose issuer has net tangible assets in excess of \$4,000,000 as demonstrated by financial statements dated within no less than 15 months that the broker-dealer has reviewed and has a reasonable basis to believe are true and complete in relation to the date of the transaction with the person; and

(i) In the event the issuer is other than a foreign private issuer, are the most recent financial statements for the issuer that have been audited and reported on by an independent public accountant in accordance with the provisions of 17 CFR 210.2-02 under the Securities Exchange Act of 1934; or

(ii) In the event the issuer is a foreign private issuer, are the most recent financial statements for the issuer that have been filed with the SEC; furnished to the SEC pursuant to 17 CFR 240.12g3-2(b) under the Securities Exchange Act of 1934; or prepared in accordance with generally accepted accounting principles in the country of incorporation, audited in compliance with the requirements of that jurisdiction, and reported on by an accountant duly registered and in good standing in accordance with the regulations of that jurisdiction.

16. Guarantee a customer against loss in any securities account of the customer carried by the broker-dealer or in any securities transaction effected by the broker-dealer with or for the customer;

17. Publish or circulate, or cause to be published or circulated, any notice, circular, advertisement, newspaper article, investment service, or communication of any kind which purports to report any transaction as a purchase or sale of any security unless the broker-dealer believes that the transaction was a bona fide purchase or sale of the security; or which purports to quote the bid price or asked price for any security, unless the broker-dealer believes that the quotation represents a bona fide bid for, or offer of, the security;

18. Use any advertising or sales presentation in such a fashion as to be deceptive or misleading. An example of such practice would be a distribution of any nonfactual data, material or presentation based on conjecture, unfounded or unrealistic claims or assertions in any brochure, flyer, or display by words, pictures, graphs or otherwise designed to supplement, detract from, supersede or defeat the purpose or effect of any prospectus or disclosure;

19. Fail to make reasonably available upon request to any person expressing an interest in a solicited transaction in a security, not listed on a registered securities exchange or quoted on an automated quotation system operated by a national securities association approved by regulation of the commission, a balance sheet of the issuer as of a date within 18 months of the offer or sale of the issuer's

securities and a profit and loss statement for either the fiscal year preceding that date or the most recent year of operations, the names of the issuer's proprietor, partners or officers, the nature of the enterprises of the issuer and any available information reasonably necessary for evaluating the desirability or lack of desirability of investing in the securities of an issuer. All transactions in securities described in this subdivision shall comply with the provisions of § 13.1-507 of the Act;

20. Fail to disclose that the broker-dealer is controlled by, controlling, affiliated with or under common control with the issuer of any security before entering into any contract with or for a customer for the purchase or sale of the security, the existence of control to the customer, and if disclosure is not made in writing, it shall be supplemented by the giving or sending of written disclosure at or before the completion of the transaction;

21. Fail to make a bona fide public offering of all of the securities allotted to a broker-dealer for distribution, whether acquired as an underwriter, a selling group member, or from a member participating in the distribution as an underwriter or selling group member;

22. Fail or refuse to furnish a customer, upon reasonable request, information to which the customer is entitled, or to respond to a formal written request or complaint;

23. Fail to clearly and separately disclose to its customer, prior to any security transaction, providing investment advice for compensation or any materially related transaction that the customer's funds or securities will be in the custody of an investment advisor or contracted custodian, in a manner that does not provide Securities Investor Protection Corporation protection, or equivalent third-party coverage over the customer's assets;

24. Market broker-dealer services that are associated with financial institutions in a manner that is misleading or confusing to customers as to the nature of securities products or risks;

25. In transactions subject to breakpoints, fail to:

a. Utilize advantageous breakpoints without reasonable basis for their exclusion;

b. Determine information that should be recorded on the books and records of a member or its clearing firm, which is necessary to determine the availability and appropriateness of breakpoint opportunities; or

c. Inquire whether the customer has positions or transactions away from the member that should be considered in connection with the pending transaction, and apprise the customer of the breakpoint opportunities;

or

26. Use a certification or professional designation in connection with the offer, sale, or purchase of securities, that indicates or implies that the user has special

certification or training in advising or servicing senior citizens or retirees in such a way as to mislead any person.

a. The use of such certification or professional designation includes, but is not limited to, the following:

(1) Use of a certification or designation by a person who has not actually earned or is otherwise ineligible to use such certification or designation;

(2) Use of a nonexistent or self-conferred certification or professional designation;

(3) Use of a certification or professional designation that indicates or implies a level of occupational qualifications obtained through education, training, or experience that the person using the certification or professional designation does not have; or

(4) Use of a certification or professional designation that was obtained from a designating or certifying organization that:

(a) Is primarily engaged in the business of instruction in sales and/or marketing;

(b) Does not have reasonable standards or procedures for assuring the competency of its designees or certificants;

(c) Does not have reasonable standards or procedures for monitoring and disciplining its designees or certificants for improper or unethical conduct; or

(d) Does not have reasonable continuing education requirements for its designees or certificants in order to maintain the designation or certificate.

b. There is a rebuttable presumption that a designating or certifying organization is not disqualified solely for purposes of subdivision 26 a (4) of this subsection, when the organization has been accredited by:

(1) The American National Standards Institute;

(2) The Institute for Credentialing Excellence (formerly the National Commission for Certifying Agencies); or

(3) An organization that is on the United States Department of Education's list entitled "Accrediting Agencies Recognized for Title IV Purposes" and the designation or credential issued therefrom does not primarily apply to sales and/or marketing.

c. In determining whether a combination of words (or an acronym standing for a combination of words) constitutes a certification or professional designation indicating or implying that a person has special certification or training in advising or servicing senior citizens or retirees, factors to be considered shall include:

(1) Use of one or more words such as "senior," "retirement," "elder," or like words, combined with one or more words such as "certified," "chartered," "adviser," "specialist," "consultant," "planner," or like words, in the name of the certification or professional designation; and

(2) The manner in which those words are combined.

d. For purposes of this section, a certification or professional designation does not include a job title within an organization that is licensed or registered by a state or federal financial services regulatory agency when that job title:

(1) Indicates seniority within the organization; or

(2) Specifies an individual's area of specialization within the organization.

For purposes of this subdivision d, "financial services regulatory agency" includes, but is not limited to, an agency that regulates broker-dealers, investment advisers, or investment companies as defined under § 3 (a)(1) of the Investment Company Act of 1940 (15 USC § 80a-3(a)(1)).

e. Nothing in this regulation shall limit the commission's authority to enforce existing provisions of law;:

27. Represent that securities will be listed or that application for listing will be made on a securities exchange or the NASDAQ system or other quotation system without reasonable basis in fact for the representation;

28. Falsify or alter so as to make false or misleading any record or document or any information provided to the commission;

29. Negotiate, facilitate, or otherwise execute a transaction on behalf of an investor involving securities issued by a third party pursuant to a claim for exemption under subsection B of § 13.1-514 of the Act unless the broker-dealer intends to report the securities owned and the value of such securities on at least a quarterly basis to the investor;

30. Offer or sell securities pursuant to a claim for exemption under subsection B of § 13.1-514 of the Act without having first verified the information relating to the securities offered or sold, which shall include, but not be limited to, ascertaining the risks associated with investing in the respective security;

31. Hold itself out as a trading platform for a registered broker-dealer without conspicuously disclosing the name of the registered broker-dealer when representing the broker-dealer in effecting or attempting to effect purchases and sales of securities;

32. Fail to advise the customer, both at the time of solicitation and on the confirmation, of any and all compensation related to a specific securities transaction to be paid to the agent including commissions, sales charges, or concessions;

33. Fail to disclose, both at the time of solicitation and on the confirmation in connection with a principal transaction, a short inventory position in the firm's account of more than 3.0% of the issued and outstanding shares of that class of securities of the issuer;

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# Regulations

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34. Conduct sales contests in a particular security without regard to an investor's suitability;

35. Fail or refuse to promptly execute sell orders in connection with a principal transaction after a solicited purchase by a customer;

36. Solicit a secondary market transaction when there has not been a bona fide distribution in the primary market;

37. Compensate an agent in different amounts for effecting sales and purchases in the same security;

38. Fail to provide each customer with a statement of account with respect to all securities in the account, containing a value for each such security based on the closing market bid on a date certain for any month in which activity has occurred in a customer's account, but in no event less than three months;

39. Fail to comply with any applicable provision of the FINRA Rules or any applicable fair practice or ethical standard promulgated by the SEC or by a self-regulatory organization approved by the SEC; or

40. Engage in any conduct that constitutes a dishonest or unethical practice including, but not limited to, forgery, embezzlement, nondisclosure, incomplete disclosure or material omissions or untrue statements of material facts, manipulative or deceptive practices, or fraudulent course of business.

B. No agent who is registered or required to be registered shall:

1. Engage in the practice of lending or borrowing money or securities from a customer, or acting as a custodian for money, securities or an executed stock power of a customer;

2. Effect any securities transaction not recorded on the regular books or records of the broker-dealer which the agent represents, unless the transaction is authorized in writing by the broker-dealer prior to execution of the transaction;

3. Establish or maintain an account containing fictitious information in order to execute a transaction which would otherwise be unlawful or prohibited;

4. Share directly or indirectly in profits or losses in the account of any customer without the written authorization of the customer and the broker-dealer which the agent represents;

5. Divide or otherwise split the agent's commissions, profits or other compensation from the purchase or sale of securities in this state with any person not also registered as an agent for the same broker-dealer, or for a broker-dealer under direct or indirect common control; ~~or~~

6. Engage in conduct specified in subdivision A 2, 3, 4, 5, 6, 10, 15, 16, 17, 18, 23, 24, 25, 26, 28, 30, 31, 32, 34, 35, 36, 39, or ~~26~~ 40 of this section;

7. Fail to comply with the continuing education requirements under 21VAC5-20-150 C; or

8. Hold oneself out as representing any person other than the broker-dealer with whom the agent is registered and, in the case of an agent whose normal place of business is not on the premises of the broker-dealer, failing to conspicuously disclose the name of the broker-dealer for whom the agent is registered when representing the dealer in effecting or attempting to effect the purchases or sales of securities.

~~C. It shall be deemed a demonstration of a lack of business knowledge by an agent insofar as business knowledge is required for registration by § 13.1 505-A 3 of the Act, if an agent fails to comply with any of the applicable continuing education requirements set forth in any of the following and such failure has resulted in an agent's denial, suspension, or revocation of a license, registration, or membership with a self regulatory organization.~~

~~1. Schedule C to the National Association of Securities Dealers By Laws, Part XII of the National Association of Securities Dealers, as such provisions existed on July 1, 1995;~~

~~2. Rule 345 A of the New York Stock Exchange, as such provisions existed on July 1, 1995;~~

~~3. Rule G 3(h) of the Municipal Securities Rulemaking Board, as such provisions existed on July 1, 1995;~~

~~4. Rule 341 A of the American Stock Exchange, as such provisions existed on July 1, 1995;~~

~~5. Rule 9.3A of the Chicago Board of Options Exchange, as such provisions existed on July 1, 1995; or~~

~~6. Article VI, Rule 9 of the Chicago Stock Exchange, as such provisions existed on July 1, 1995;~~

~~7. Rule 9.27(C) of the Pacific Stock Exchange, as such provisions existed on July 1, 1995; or~~

~~8. Rule 640 of the Philadelphia Stock Exchange, as such provisions existed on July 1, 1995.~~

~~Each or all of the education requirements standards listed above may be changed by each respective entity and if so changed will become a requirement if the change does not materially reduce the educational requirements expressed above or reduce the investor protection provided by the requirements.~~

~~D. C.~~ No person shall publish, give publicity to, or circulate any notice, circular, advertisement, newspaper article, letter, investment service or communication which, though not purporting to offer a security for sale, describes the security, for a consideration received or to be received, directly or indirectly, from an issuer, underwriter, or dealer, without fully disclosing the receipt, whether past or prospective, of such consideration and the amount thereof.

~~E. The purpose of this subsection is to identify practices in the securities business which are generally associated with~~

schemes to manipulate and to identify prohibited business conduct of broker dealers or sales agents:

- ~~1. Entering into a transaction with a customer in any security at an unreasonable price or at a price not reasonably related to the current market price of the security or receiving an unreasonable commission or profit.~~
- ~~2. Contradicting or negating the importance of any information contained in a prospectus or other offering materials with intent to deceive or mislead or using any advertising or sales presentation in a deceptive or misleading manner.~~
- ~~3. In connection with the offer, sale, or purchase of a security, falsely leading a customer to believe that the broker dealer or agent is in possession of material, nonpublic information which would affect the value of the security.~~
- ~~4. In connection with the solicitation of a sale or purchase of a security, engaging in a pattern or practice of making contradictory recommendations to different investors of similar investment objective for some to sell and others to purchase the same security, at or about the same time, when not justified by the particular circumstances of each investor.~~
- ~~5. Failing to make a bona fide public offering of all the securities allotted to a broker dealer for distribution by, among other things, (i) transferring securities to a customer, another broker dealer or a fictitious account with the understanding that those securities will be returned to the broker dealer or its nominees or (ii) parking or withholding securities.~~
- ~~6. Although nothing in this subsection precludes application of the general antifraud provisions against anyone for practices similar in nature to the practices discussed below, the following subdivisions a through f specifically apply only in connection with the solicitation of a purchase or sale of OTC (over the counter) unlisted non NASDAQ equity securities:
  - ~~a. Failing to advise the customer, both at the time of solicitation and on the confirmation, of any and all compensation related to a specific securities transaction to be paid to the agent including commissions, sales charges, or concessions.~~
  - ~~b. In connection with a principal transaction, failing to disclose, both at the time of solicitation and on the confirmation, a short inventory position in the firm's account of more than 3.0% of the issued and outstanding shares of that class of securities of the issuer; however, subdivision 6 of this subsection shall apply only if the firm is a market maker at the time of the solicitation.~~
  - ~~c. Conducting sales contests in a particular security.~~
  - ~~d. After a solicited purchase by a customer, failing or refusing, in connection with a principal transaction, to promptly execute sell orders.~~~~

~~e. Soliciting a secondary market transaction when there has not been a bona fide distribution in the primary market.~~

~~f. Engaging in a pattern of compensating an agent in different amounts for effecting sales and purchases in the same security.~~

~~7. Effecting any transaction in, or inducing the purchase or sale of any security by means of any manipulative, deceptive or other fraudulent device or contrivance including but not limited to the use of boiler room tactics or use of fictitious or nominee accounts.~~

~~8. Failing to comply with any prospectus delivery requirements promulgated under federal law or the Act.~~

~~9. In connection with the solicitation of a sale or purchase of an OTC unlisted non NASDAQ security, failing to promptly provide the most current prospectus or the most recently filed periodic report filed under § 13 of the Securities Exchange Act when requested to do so by a customer.~~

~~10. Marking any order tickets or confirmations as unsolicited when in fact the transaction was solicited.~~

~~11. For any month in which activity has occurred in a customer's account, but in no event less than every three months, failing to provide each customer with a statement of account with respect to all OTC non NASDAQ equity securities in the account, containing a value for each such security based on the closing market bid on a date certain; however, this subdivision shall apply only if the firm has been a market maker in the security at any time during the month in which the monthly or quarterly statement is issued.~~

~~12. Failing to comply with any applicable provision of the Rules of Fair Practice of the NASD or any applicable fair practice or ethical standard promulgated by the SEC or by a self regulatory organization approved by the SEC.~~

~~13. In connection with the solicitation of a purchase or sale of a designated security:~~

~~a. Failing to disclose to the customer the bid and ask price, at which the broker dealer effects transactions with individual, retail customers, of the designated security as well as its spread in both percentage and dollar amounts at the time of solicitation and on the trade confirmation documents; or~~

~~b. Failing to include with the confirmation, the notice disclosure contained in subsection F of this section, except the following shall be exempt from this requirement:~~

~~(1) Transactions in which the price of the designated security is \$5.00 or more, exclusive of costs or charges; however, if the designated security is a unit composed of one or more securities, the unit price divided by the number of components of the unit other than warrants, options, rights, or similar securities must be \$5.00 or~~

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# Regulations

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more, and any component of the unit that is a warrant, option, right, or similar securities, or a convertible security must have an exercise price or conversion price of \$5.00 or more.

(2) Transactions that are not recommended by the broker-dealer or agent.

(3) Transactions by a broker dealer: (i) whose commissions, commission equivalents, and mark ups from transactions in designated securities during each of the preceding three months, and during 11 or more of the preceding 12 months, did not exceed 5.0% of its total commissions, commission equivalents, and mark ups from transactions in securities during those months; and (ii) who has not executed principal transactions in connection with the solicitation to purchase the designated security that is the subject of the transaction in the preceding 12 months.

(4) Any transaction or transactions that, upon prior written request or upon its own motion, the commission conditionally or unconditionally exempts as not encompassed within the purposes of this section.

e. For purposes of this section, the term "designated security" means any equity security other than a security:

(1) Registered, or approved for registration upon notice of issuance, on a national securities exchange and makes transaction reports available pursuant to 17 CFR 11Aa3-1 under the Securities Exchange Act of 1934;

(2) Authorized, or approved for authorization upon notice of issuance, for quotation in the NASDAQ system;

(3) Issued by an investment company registered under the Investment Company Act of 1940;

(4) That is a put option or call option issued by The Options Clearing Corporation; or

(5) Whose issuer has net tangible assets in excess of \$4,000,000 as demonstrated by financial statements dated within no less than 15 months that the broker or dealer has reviewed and has a reasonable basis to believe are true and complete in relation to the date of the transaction with the person, and

(a) In the event the issuer is other than a foreign private issuer, are the most recent financial statements for the issuer that have been audited and reported on by an independent public accountant in accordance with the provisions of 17 CFR 210.2-02 under the Securities Exchange Act of 1934; or

(b) In the event the issuer is a foreign private issuer, are the most recent financial statements for the issuer that have been filed with the SEC; furnished to the SEC pursuant to 17 CFR 240.12g3-2(b) under the Securities Exchange Act of 1934; or prepared in accordance with generally accepted accounting principles in the country of incorporation, audited in compliance with the requirements of that jurisdiction, and reported on by an

accountant duly registered and in good standing in accordance with the regulations of that jurisdiction.

F. Customer notice requirements follow:

~~IMPORTANT CUSTOMER NOTICE READ CAREFULLY~~

~~You have just entered into a solicited transaction involving a security which may not trade on an active national market. The following should help you understand this transaction and be better able to follow and protect your investment.~~

~~Q. What is meant by the BID and ASK price and the spread?~~

~~A. The BID is the price at which you could sell your securities at this time. The ASK is the price at which you bought. Both are noted on your confirmation. The difference between these prices is the "spread," which is also noted on the confirmation, in both a dollar amount and a percentage relative to the ASK price.~~

~~Q. How can I follow the price of my security?~~

~~A. For the most part, you are dependent on broker dealers that trade in your security for all price information. You may be able to find a quote in the newspaper, but you should keep in mind that the quote you see will be for dealer-to-dealer transactions (essentially wholesale prices and will not necessarily be the prices at which you could buy or sell).~~

~~Q. How does the spread relate to my investments?~~

~~A. The spread represents the profit made by your broker-dealer and is the amount by which your investment must increase (the BID must rise) for you to break even. Generally, a greater spread indicates a higher risk.~~

~~Q. How do I compute the spread?~~

~~A. If you bought 100 shares at an ASK price of \$1.00, you would pay \$100 (100 shares X \$1.00 = \$100). If the BID price at the time you purchased your stock was \$.50, you could sell the stock back to the broker-dealer for \$50 (100 shares X \$.50 = \$50). In this example, if you sold at the BID price, you would suffer a loss of 50%.~~

~~Q. Can I sell at any time?~~

~~A. Maybe. Some securities are not easy to sell because there are few buyers, or because there are no broker-dealers who buy or sell them on a regular basis.~~

~~Q. Why did I receive this notice?~~

~~A. The laws of some states require your broker-dealer or sales agent to disclose the BID and ASK price on your confirmation and include this notice in some instances. If the BID and ASK were not explained to you at the time you discussed this investment with your broker, you may have further rights and remedies under both state and federal law.~~

~~Q. Where do I go if I have a problem?~~

~~A. If you cannot work the problem out with your broker-dealer, you may contact the Virginia State Corporation Commission or the securities commissioner in the state in which you reside, the United States Securities and Exchange Commission, or the National Association of Securities Dealers, Inc.~~

~~G. No broker dealer or agent shall engage in any conduct that constitutes a dishonest or unethical practice, including, but not limited to, forgery, embezzlement, nondisclosure, incomplete disclosure or misstatement of material facts, manipulative or deceptive practices, or fraudulent course of business.~~

~~H. No broker dealer or agent shall engage in any conduct specified in subsection A, B, C, D, E, or G of this section which shall be grounds under the Act for imposition of a penalty, denial of a pending application, refusal to renew, revocation of an effective registration, or any other action the Act shall allow.~~

**21VAC5-20-285. Customer notice for designated securities.**

A. Broker-dealers that solicit the purchase and sale of designated securities shall provide the following notice to customers:

**IMPORTANT CUSTOMER NOTICE-READ CAREFULLY**

You have just entered into a solicited transaction involving a security which may not trade on an active national market. The following should help you understand this transaction and be better able to follow and protect your investment.

Q. What is meant by the BID and ASK price and the spread?

A. The BID is the price at which you could sell your securities at this time. The ASK is the price at which you bought. Both are noted on your confirmation. The difference between these prices is the "spread," which is also noted on the confirmation, in both a dollar amount and a percentage relative to the ASK price.

Q. How can I follow the price of my security?

A. For the most part, you are dependent on broker-dealers that trade in your security for all price information. You may be able to find a quote in the newspaper, but you should keep in mind that the quote you see will be for dealer-to-dealer transactions (essentially wholesale prices and will not necessarily be the prices at which you could buy or sell).

Q. How does the spread relate to my investments?

A. The spread represents the profit made by your broker-dealer and is the amount by which your investment must increase (the BID must rise) for you to break even. Generally, a greater spread indicates a higher risk.

Q. How do I compute the spread?

A. If you bought 100 shares at an ASK price of \$1.00, you would pay \$100 (100 shares X \$1.00 = \$100). If the BID price at the time you purchased your stock was \$.50, you could sell the stock back to the broker-dealer for \$50 (100 shares X \$.50 = \$50). In this example, if you sold at the BID price, you would suffer a loss of 50%.

Q. Can I sell at any time?

A. Maybe. Some securities are not easy to sell because there are few buyers, or because there are no broker-dealers who buy or sell them on a regular basis.

Q. Why did I receive this notice?

A. The laws of some states require your broker-dealer or sales agent to disclose the BID and ASK price on your confirmation and include this notice in some instances. If the BID and ASK were not explained to you at the time you discussed this investment with your broker, you may have further rights and remedies under both state and federal law.

Q. Where do I go if I have a problem?

A. If you cannot work the problem out with your broker-dealer, you may contact the Virginia State Corporation Commission or the securities commissioner in the state in which you reside, the United States Securities and Exchange Commission, or FINRA.

B. For the purpose of this section, the term "designated security" shall be defined as in subdivision A 15 m 3 under 21VAC5-20-280.

**21VAC5-20-330. Model rules for sales of securities at financial institutions.**

A. This section applies exclusively to broker-dealer services conducted by broker-dealers and their agents on the premises of a financial institution where retail deposits are taken or through an affiliate of the financial institution.

This section does not alter or abrogate a broker-dealer's obligation to comply with other applicable laws, rules, or regulations that may govern the operations of broker-dealers and their agents, including but not limited to, supervisory obligations. ~~This~~ Broker-dealers are responsible for the acts, practices, and conduct of their agents in connection with the offer and sale of securities. Additionally, this section does not apply to broker-dealer services provided to nonretail customers.

B. For purposes of this section, the following terms have the meanings indicated:

"Affiliate" means (i) an entity that a financial institution owns, in whole or in part or (ii) an entity that is a subsidiary of the financial institution's parent company.

"Broker-dealer services" means the investment banking or securities business as defined in paragraph ~~(p)~~ (u) of Article I of the ~~By-Laws of the NASD~~ FINRA By-Laws.

"Financial institution" means federal and state-chartered banks, savings and loan associations, savings banks, credit



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# Regulations

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unions, and the service corporations of such institutions located in Virginia.

"Networking arrangement" means a contractual or other arrangement between a broker-dealer and a financial institution by which the broker-dealer conducts broker-dealer services on the premises of the financial institution where retail deposits are taken or through an affiliate of the financial institution.

C. Standards for broker-dealer conduct. No broker-dealer shall conduct broker-dealer services ~~on the premises of a financial institution where retail deposits are taken~~ pursuant to a networking arrangement unless the broker-dealer and its agents comply with the following requirements:

1. Setting. Wherever practical, broker-dealer services shall be conducted in a physical location distinct from the area in which the financial institution's retail deposits are taken. In those situations where there is insufficient space to allow separate areas, the broker-dealer has a heightened responsibility to distinguish its services from those of the financial institution. In all situations, the broker-dealer shall identify its services in a manner that clearly distinguishes those services from the financial institution's retail deposit-taking activities. The broker-dealer's name shall be clearly displayed in the area in which the broker-dealer conducts its services.

2. a. Networking arrangements. There shall be a written agreement between the financial institution and its associated broker-dealer that shall be filed with the commission at its Division of Securities and Retail Franchising at least 90 days prior to its effective date, which shall include, at a minimum, ~~address~~ the areas items listed below.

- (1) A description of the responsibilities of each party, including the features of the sales program and the roles of registered and unregistered personnel;
- (2) A description of the responsibilities of broker-dealer personnel authorized to make investment sales or recommendations;
- (3) A description of how referrals to associated broker-dealer personnel will be made;
- (4) A description of compensation arrangements for unregistered personnel;
- (5) A description of training to be provided to both registered and unregistered personnel;
- (6) A description of broker-dealer office audits to be conducted by the broker-dealer, including frequency, reports associated with financial institutions and records to be reviewed; ~~and~~
- (7) Authority of the financial institution and regulators to have access to relevant records of the broker-dealer and the financial institution in order to evaluate compliance with the agreement; and

(8) A statement identifying whether the broker-dealer will offer or sell securities issued pursuant to an exemption from registration under 21VAC5-45-20 (Regulation D, Rule 506, 15 USC § 77r(b)(4)(D), 17 CFR 230.506).

b. Program management. The program's management of the broker-dealer's networking arrangements shall address and include at a minimum, those items listed below.

- (1) A description of relevant referral activities and compensation arrangements;
- (2) A description of appropriate training requirements for various classes of personnel;
- (3) The scope and frequency of compliance reviews and the manner and frequency of reporting to broker-dealer compliance supervisors and the financial institution compliance management group;
- (4) The process of verifying that security purchases and sales are being conducted in accordance with the written networking agreement;
- (5) The permissible use of financial institution and broker-dealer customer information, including how compliance with Virginia and federal law and with the broker-dealer's privacy policies will be achieved; ~~and~~
- (6) The existence of any potential conflicts of interest between the broker-dealer activities and the financial institution and its affiliates and appropriate disclosure of the conflicts that result from the relationship; ~~and~~
- (7) A description of the method in which the broker-dealer will determine the suitability of the securities for its customers and a description of the supervisory procedures imposed for the offer and sale of securities issued pursuant to an exemption from registration under 21VAC5-45-20 (Regulation D, Rule 506, 15 USC § 77r(b)(4)(D), 17 CFR 230.506).

c. If a financial institution has a networking arrangement with a registered broker-dealer, an affiliate of the financial institution may also be registered as a broker-dealer and may also employ agents that are registered with the broker-dealer with which there is a networking arrangement. If the financial institution's affiliate is a registered broker-dealer, and both the affiliate and the broker-dealer operating under a networking arrangement employs dual agents, both the broker-dealer and the affiliate are equally responsible for the supervision of the agents. The agents must be registered for both the broker-dealer and the affiliate.

3. Customer disclosure and written acknowledgment.

a. At or prior to the time that a customer's securities brokerage account is opened by a broker-dealer on the premises of a financial institution where retail deposits are taken, the broker-dealer or its agents shall:

(1) Disclose, orally and in writing, that the securities products purchased or sold in a transaction with the broker-dealer:

(a) Are not insured by the Federal Deposit Insurance Corporation ("FDIC") or the National Credit Union Administration ("NCUA");

(b) Are not deposits or other obligations of the financial institution and are not guaranteed by the financial institution; and

(c) Are subject to investment risks, including possible loss of principal invested.

(2) Make reasonable efforts to obtain from each customer during the account opening process a written acknowledgment of the disclosures required by subdivision C 3 a (1).

(3) Provide written disclosures that are conspicuous, easy to comprehend and presented in a clear and concise manner.

(4) Disclose, orally and in writing, that the broker-dealer and the financial institution are separate entities, and when mutual funds or other securities are bought through the broker-dealer, the client is doing business with the broker-dealer and not with the financial institution.

(5) Disclose, orally and in writing that the broker-dealer and the financial institution will likely receive compensation as a result of the purchase of securities or advisory services by the client through the broker-dealer.

b. If broker-dealer services include any written or oral representations concerning insurance coverage, other than FDIC insurance coverage, then clear and accurate written or oral explanations of the coverage must also be provided to the customers when such representations are first made.

4. Communications with the public.

a. All of the broker-dealer's confirmations and account statements must indicate clearly that the broker-dealer services are provided by the broker-dealer. Such indication may include the name of the financial institution or any of the financial institution's affiliates, but the name of the broker-dealer shall be in print larger than the name of the financial institution.

b. Advertisements and sales literature that announce the location of a financial institution where broker-dealer services are provided by the broker-dealer or its agents, or that are distributed by the broker-dealer or its agents on the premises of a financial institution, must disclose that securities products: are not insured by the FDIC; are not deposits or other obligations of the financial institution and are not guaranteed by the financial institution; and are subject to investment risks, including possible loss of the principal invested. The shorter logo format described in subdivision C 4 d may be used to provide these disclosures.

c. Recommendations by a broker-dealer or its agents concerning nondeposit investment products with a name similar to that of a financial institution must only occur pursuant to policies and procedures reasonably designed to minimize risk of customer confusion.

d. The following shorter logo format disclosures may be used by a broker-dealer or its agents in advertisements and sales literature, including material published, or designed for use, in radio or television broadcasts, automated teller machine ("ATM") screens, billboards, signs, social media, posters and brochures, to comply with the requirements of subdivision C 4 b provided that such disclosures are displayed in a conspicuous manner:

(1) Not FDIC insured;

(2) No bank guarantee;

(3) May lose value.

e. As long as the omission of the disclosures required by subdivision C 4 b would not cause the advertisement or sales literature to be misleading in light of the context in which the material is presented, the disclosures are not required with respect to messages contained in:

(1) Radio broadcasts of 30 seconds or less;

(2) Electronic signs, including billboard-type signs that are electronic, time and temperature signs and ticker tape signs, but excluding messages contained in such media as television, on-line computer services, or ATMs; and

(3) Signs, such as banners and posters or social media, when used only as location indicators.

5. Notification of termination. The broker-dealer must promptly notify the financial institution if any agent of the broker-dealer who is employed by the financial institution is terminated for cause by the broker-dealer.

6. Referral fees paid to unregistered financial institution employees. Unregistered financial institution employees may only receive a one-time nominal fee of a fixed dollar amount for each customer referral, and only if the payment is not contingent on whether the referral results in an investment activity or a transaction.

7. Prohibited conduct.

In addition to the provisions of subsections A and B of 21VAC5-20-280, unless otherwise specified herein, broker-dealers and broker-dealer agents offering broker-dealer services in association with a financial institution or an affiliate of the financial institution, pursuant to a networking arrangement, shall not:

(1) Accept or receive compensation directly or indirectly from the financial institution for broker-dealer services provided;

(2) Identify themselves as being affiliated with the financial institution or any of the financial institution's affiliated companies;

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# Regulations

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(3) Fail to follow the terms of a networking agreement between a financial institution or any affiliated company of the financial institution concerning the offer and sale of securities; and

(4) Use nonregistered employees of the financial institution or any affiliate of the financial institution to solicit investors.

DOCUMENTS INCORPORATED BY REFERENCE (21VAC5-20)

Rule 1250 of FINRA By-Laws, Continuing Education Requirements, amended by SR-FINRA-2011-013, eff. October 17, 2011, Financial Industry Regulatory Authority, Inc.

Rule 345 A of the New York Stock Exchange Rules, Continuing Education for Registered Persons, effective as existed July 1, 1995, New York Stock Exchange.

Rule G-3(h) of the Municipal Securities Rulemaking Board, Classification of Principals and Representatives; Numerical Requirements; Testing; Continuing Education Requirements, effective as existed July 1, 1995, Municipal Securities Rulemaking Board.

Rule 341A of the New York Stock Exchange Market Rules, Continuing Education for Registered Persons, effective as existed May 14, 2012, New York Stock Exchange.

Rule 9.3A of the Chicago Board Options Exchange, Continuing Education for Registered Persons, effective as existed July 1, 1995, Chicago Board Options Exchange.

Article VI, Rule 11 of the Rules of the Chicago Stock Exchange, Inc., Continuing Education for Registered Persons, effective as existed July 1, 1995, Chicago Stock Exchange, Inc.

FINRA, Rule 2264, Margin Disclosure Statement, amended by SR-FINRA-2011-065, eff. December 5, 2011.

Article I, Paragraph u of FINRA By-Laws.

## **21VAC5-30-50. Requirements for registration statements relating to nonissuer distributions.**

A. The requirements for a registration statement filed pursuant to § 13.1-508 of the Act relating to securities to be offered and sold pursuant to a nonissuer distribution (i.e., "secondary trading") are:

1. a. The registration statement shall contain the issuer's most recent 10-K Annual Report and 10-Q Quarterly Report filed with the SEC pursuant to § 13 or § 15(d) of the Securities Exchange Act of 1934 (15 USC § 78m or o(d)).

b. The registration statement pertaining to the securities of a Canadian issuer which have been registered pursuant to the Multijurisdictional Disclosure System described by the SEC in Release No. 33-6841 shall contain the issuer's most recent Annual Information Form (plus the issuer's latest audited fiscal year-end financial statements) and

Quarterly Report as filed with the appropriate Canadian regulatory authority.

2. If within 12 months of the date of filing the registration statement any 8-K Current Report has been filed with the SEC pursuant to § 13 or § 15(d) of the Securities Exchange Act of 1934, then a copy of each such report shall be filed with the registration statement.

3. If within 12 months of the date of filing the registration statement any Form 10 general form for registration of securities has been filed with the SEC pursuant to § 12(d) or (g) of the Securities Exchange Act of 1934, then a copy of each such form shall be filed with the registration statement.

4. If within 12 months of the date of filing the registration statement a registration statement has been filed with the SEC pursuant to § 6 of the Securities Act of 1933 (15 USC § 77f), then a copy of each such registration statement shall be filed with this registration statement.

B. For purposes of this section, the word "registered" as used in § 13.1-508 A 2 (i) of the Act shall mean registered pursuant to this Act, the Securities Act of 1933 or the Securities Exchange Act of 1934.

C. The requirement for delivery of a prospectus under § 13.1-508 D of the Act, with respect to securities registered pursuant to this section, shall be met by compliance with 21VAC5-20-280 A ~~49~~ 10.

D. A registration statement filed pursuant to this section need not comply with 21VAC5-30-40.

## **21VAC5-30-80. Adoption of NASAA statements of policy.**

The commission adopts the following NASAA statements of policy that shall apply to the registration of securities in the Commonwealth. It will be considered a basis for denial of an application if an offering fails to comply with an applicable statement of policy. While applications not conforming to a statement of policy shall be looked upon with disfavor, where good cause is shown, certain provisions may be modified or waived by the commission.

1. Options and Warrants, as amended March 31, 2008.

2. Underwriting Expenses, Underwriter's Warrants, Selling Expenses and Selling Security Holders, as amended March 31, 2008.

3. Real Estate Programs, as amended May 7, 2007.

4. Oil and Gas Programs, as amended May 7, 2007.

5. Cattle-Feeding Programs, as adopted September 17, 1980.

6. Unsound Financial Condition, as amended March 31, 2008.

7. Real Estate Investment Trusts, as amended May 7, 2007.

8. Church Bonds, as adopted April 29, 1981.

9. Small Company Offering Registrations, as adopted April 28, 1996.

10. NASAA Guidelines Regarding Viatical Investment, as adopted October 1, 2002.

11. Corporate Securities Definitions, as amended March 31, 2008.

12. Church Extension Fund Securities, as amended April 18, 2004.

DOCUMENTS INCORPORATED BY REFERENCE  
(21VAC5-30)

Statement of Policy Regarding Church Extension Fund Securities, adopted April 17, 1994, amended April 18, 2004, North American Securities Administrators Association, Inc.

**21VAC5-40-40. Nasdaq/National Market System exemption. (Repealed.)**

~~In accordance with § 13.1 514 A 12 of the Act, the following are exempt from the securities registration requirements of the Act: any security listed or approved for listing upon notice of issuance on the National Association of Securities Dealers Automated Quotation National Market System (Nasdaq/National Market System); any other security of the same issuer that is of senior or substantially equal rank; any security called for by subscription rights or warrants so listed or approved; or any warrant or right to purchase or subscribe to any of the foregoing.~~

~~1. The Commission shall have authority by rule or order to deny, suspend or revoke the exemption created by this section as to a specific issue or category of securities when necessitated by the public interest and for the protection of investors.~~

~~2. The Commission may rescind this section by order if it determines that the Nasdaq/National Market System's requirements for listing or maintenance of securities of an issuer as set forth in the Memorandum of Understanding: The Uniform Model Marketplace Exemption from State Securities Registration Requirements, adopted April 28, 1990, by membership of the North American Securities Administrators Association, Inc., published in The Commerce Clearing House NASAA Reports, paragraph 2351, have been so changed or insufficiently applied that the protection of investors contemplated by the exemption no longer is afforded.~~

~~3. The Commission may rescind this section by order if it determines that the NASD has not provided on a timely basis to the Commission upon its request materially complete prospectuses in the form most recently filed with the SEC as well as any other relevant information the Commission may deem to be necessary pertaining to initial public offerings that the NASD ordinarily obtains in regulating issuers listed on the Nasdaq/National Market System, based on agreement with the Commission concerning the information to be provided.~~

**21VAC5-40-60. Chicago Board Options Exchange. (Repealed.)**

~~A. In accordance with § 13.1 514 A 12 of the Act, the following are exempt from the securities registration requirements of the Act: securities listed or approved for listing upon issuance on the Chicago Board Options Exchange, Inc. ("CBOE"); securities of the same issuer that are of senior or substantially equal rank; securities called for by subscription rights or warrants so listed or approved; or warrants or rights to purchase or subscribe to any of the foregoing.~~

~~B. The State Corporation Commission shall have authority by rule or order to deny, suspend or revoke the exemption created by this rule as to a specific issue or category of securities when necessitated by the public interest and for the protection of investors.~~

~~C. The State Corporation Commission may rescind this rule by order if it determines that CBOE's requirements for listing or maintenance of securities of an issuer as set forth in the "Memorandum of Understanding Between the North American Securities Administrators Association, Inc., and the Chicago Board Options Exchange, Inc.," approved May 30, 1991, by membership of the North American Securities Administrators Association, Inc., published in the Commerce Clearing House, "NASAA Reports," paragraph 801 et seq., have been so changed or insufficiently applied that the protection of investors contemplated by the exemption no longer is afforded.~~

~~D. The State Corporation Commission may rescind this rule by order if it determines that CBOE has not provided on a timely basis to the State Corporation Commission upon its request materially complete prospectuses in the form most recently filed with the Securities and Exchange Commission as well as other relevant information the State Corporation Commission may deem to be necessary pertaining to initial public offerings, all linked securities and entities whose securities' values underlie Contingent Value Rights that CBOE ordinarily obtains in regulating issuers listed on CBOE, based on agreement with the State Corporation Commission concerning the information to be provided.~~

**21VAC5-40-80. Philadelphia Stock Exchange, Inc. (Repealed.)**

~~A. In accordance with § 13.1 514 A 12 of the Act, the following are exempt from the securities registration requirements of the Act: securities listed or approved for listing upon notice of issuance on Tier I of the Philadelphia Stock Exchange, Inc. (the Exchange); securities of the same issuer that are of senior or substantially equal rank; securities called for by subscription rights or warrants so listed or approved; or warrants or rights to purchase or subscribe to any of the foregoing.~~

~~B. The State Corporation Commission shall have authority by rule or order to deny, suspend or revoke the exemption created by this rule as to a specific issue or category of~~

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# Regulations

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securities when necessitated by the public interest and for the protection of investors.

~~C. The State Corporation Commission may rescind this rule by order if it determines that the Exchange's requirements for listing or maintenance of securities of an issuer as set forth in the "Memorandum of Understanding Between the North American Securities Administrators Association, Inc. and the Philadelphia Stock Exchange, Inc.," approved October 12, 1994, by membership of the North American Securities Administrators Association, Inc., published in the Commerce Clearing House, "NASAA Reports," paragraph 2941 et seq., have been so changed or insufficiently applied that the protection of investors contemplated by the exemption no longer is afforded.~~

~~D. The State Corporation Commission may rescind this rule by order if it determines that the Exchange has not provided on a timely basis to the State Corporation Commission upon its request materially complete prospectuses in the form most recently filed with the Securities and Exchange Commission as well as other relevant information the State Corporation Commission may deem to be necessary pertaining to initial public offerings that the Exchange ordinarily obtains in regulating issuers listed on the Exchange, based on agreement with the State Corporation Commission concerning the information to be provided.~~

## **21VAC5-40-90. Pacific Stock Exchange, Inc. (Repealed.)**

~~A. In accordance with § 13.1-514 A 12 of the Act, the following are exempt from the securities registration requirements of the Act: securities listed or approved for listing upon notice of issuance on Tier I of the Pacific Stock Exchange, Inc. (the Exchange); securities of the same issuer that are of senior or substantially equal rank; securities called for by subscription rights or warrants so listed or approved; or warrants or rights to purchase or subscribe to any of the foregoing.~~

~~B. The State Corporation Commission shall have authority by rule or order to deny, suspend or revoke the exemption created by this rule as to a specific issue or category of securities when necessitated by the public interest and for the protection of investors.~~

~~C. The State Corporation Commission may rescind this rule by order if it determines that the Exchange's requirements for listing or maintenance of securities of an issuer as set forth in the "Memorandum of Understanding Between the North American Securities Administrators Association, Inc. and the Pacific Stock Exchange, Inc.," approved October 12, 1994, by membership of the North American Securities Administrators Association, Inc., published in the Commerce Clearing House, "NASAA Reports," paragraph 2841 et seq., have been so changed or insufficiently applied that the protection of investors contemplated by the exemption no longer is afforded.~~

~~D. The State Corporation Commission may rescind this rule by order if it determines that the Exchange has not provided~~

~~on a timely basis to the State Corporation Commission upon its request materially complete prospectuses in the form most recently filed with the Securities and Exchange Commission as well as other relevant information the State Corporation Commission may deem to be necessary pertaining to initial public offerings that the Exchange ordinarily obtains in regulating issuers listed on the Exchange, based on agreement with the State Corporation Commission concerning the information to be provided.~~

## **21VAC5-40-180. Certain options, warrants, and rights.**

In accordance with § 13.1-514 A 12 of the Act, the following securities are exempt from the securities registration requirements of the Act:

1. A put or a call option contract, a warrant, or a subscription right on or with respect to a federal covered security so specified in § 18 (b)(1) of the Securities Act of 1933 (15 USC § 77r(b)(1)) or by rule adopted under that provision;

2. An option or similar derivative security on a security or index of securities or foreign currencies issued by a clearing agency registered under the Securities Act of 1934 and listed or designated for trading on a national securities exchange, a facility of a national securities exchange, or a facility of a national securities association registered under the Securities Exchange Act of 1934 or an offer or sale of the underlying security in connection with the offer, sale, or exercise of an option or other security that was exempt when the option or other security was written or issued; or

3. An option or a derivative security designated by the SEC under § 9 (b) of the Securities Act of 1934 (15 USC § 78i(b)).

**NOTICE:** The following form used in administering the regulation was filed by the agency. The form is not being published; however, online users of this issue of the Virginia Register of Regulations may click on the name to access the form. The form is also available from the agency contact or may be viewed at the Office of the Registrar of Regulations, General Assembly Building, 2nd Floor, Richmond, Virginia 23219.

## FORMS (21VAC5-40)

Form D, Notice of Exempt Offering of Securities, U.S. Securities and Exchange Commission, SEC1972, (eff. 9/08).

[Form D, Notice of Exempt Offering of Securities, U.S. Securities and Exchange Commission, SEC1972 \(rev. 2/12\).](#)

## **21VAC5-45-20. Offerings conducted pursuant to Rule 506 of federal Regulation D (17 CFR 230.506): Filing requirements and issuer-agent exemption.**

A. An issuer offering a security that is a covered security under § 18 (b)(4)(D) of the Securities Act of 1933 (15 USC § 77r(b)(4)(D)) shall file with the commission no later than 15 days after the first sale of such federal covered security in this Commonwealth:

1. A notice on SEC Form D (17 CFR 239.500), as filed with the SEC.

2. A filing fee of \$250 payable to the Treasurer of Virginia.

B. An amendment filing shall contain a copy of the amended SEC Form D. No fee is required for an amendment.

C. For the purpose of this chapter, SEC "Form D" is the document, as adopted by the SEC and in effect on ~~September 15, 2008~~ February 27, 2012, entitled "Form D, Notice of Exempt Offering of Securities."

D. Pursuant to § 13.1-514 B 13 of the Act, an agent of an issuer who effects transactions in a security exempt from registration under the Securities Act of 1933 pursuant to rules and regulations promulgated under § 4(2) thereof (15 USC § 77d(2)) is exempt from the agent registration requirements of the Act.

**NOTICE:** The following form used in administering the regulation was filed by the agency. The form is not being published; however, online users of this issue of the Virginia Register of Regulations may click on the name to access the form. The form is also available from the agency contact or may be viewed at the Office of the Registrar of Regulations, General Assembly Building, 2nd Floor, Richmond, Virginia 23219.

FORMS (21VAC5-45)

~~Form D, Notice of Exempt Offering of Securities, U.S. Securities and Exchange Commission, SEC1972, (eff. 9/08).~~

[Form D, Notice of Exempt Offering of Securities, U.S. Securities and Exchange Commission, SEC1972 \(rev. 2/12\).](#)

Part I

Investment Advisor Registration, Notice Filing for Federal Covered Advisors, Expiration, Renewal, Updates and Amendments, Terminations and Merger or Consolidation

**21VAC5-80-10. Application for registration as an investment advisor and notice filing as a federal covered advisor.**

A. Application for registration as an investment advisor shall be filed in compliance with all requirements of ~~the Investment Advisor Registration Depository (IARD) system~~ IARD and in full compliance with forms and regulations prescribed by the commission and shall include all information required by such forms.

B. An application shall be deemed incomplete for ~~purposes of applying for~~ registration as an investment advisor unless the applicant submits the following executed forms, fee, and information ~~are submitted:~~

1. Form ADV Parts ~~I 1~~ and ~~H 2~~ submitted to ~~the IARD system.~~
2. The statutory fee made payable to FINRA in the amount of \$200 submitted to ~~the IARD system~~ pursuant to § 13.1-505 F of the Act.
3. A copy of the client agreement.

4. A copy of the firm's supervisory and procedures manual as required by 21VAC5-80-170.

5. Copies of all advertising materials.

6. Copies of all stationery and business cards.

7. A signed affidavit stating that an investment advisor domiciled in Virginia has not conducted investment advisory business prior to registration, and for investment advisors domiciled outside of Virginia an affidavit stating that the advisor has fewer than six clients in ~~any~~ the prior 12-month period.

~~8. The following financial statements:~~

- ~~a. A trial balance of all ledger account;~~
- ~~b. A statement of all client funds or securities that are not segregated;~~
- ~~c. A computation of the aggregate amount of client ledger debit balances;~~
- ~~d. A statement as to the number of client accounts;~~
- ~~e. Financial statements prepared in accordance with generally accepted accounting principles that shall include a balance sheet, income statement, and statement of cash flow.~~

8. An audited or certified balance sheet prepared in accordance with generally accepted accounting practices reflecting the financial condition of the investment advisor not more than 90 days prior to the date of such filing.

9. A copy of the firm's disaster recovery plan as required by 21VAC5-80-160 F.

~~10. At Evidence of at least one qualified individual ~~must have a~~ with an investment advisor representative registration pending on ~~the IARD system~~ on behalf of the investment advisor ~~prior to the grant of registration.~~~~

~~11. Form IA XRF, "Cross Reference Between ADV Part II, ADV Part 1A/1B, Schedule F, Contract and Brochure."~~

~~12. 11.~~ Any other information the commission may require.

For purposes of this section, the term "net worth" means an excess of assets over liabilities, as determined by generally accepted accounting principles, ~~but~~ Net worth shall not include ~~as assets:~~ prepaid expenses (except as to items properly classified as assets under generally accepted accounting principles), deferred charges such as deferred income tax charges, goodwill, franchise rights, organizational expenses, patents, copyrights, marketing rights, unamortized debt discount and expense, all other assets of intangible nature, home furnishings, automobiles, and any other personal items not readily marketable in the case of an individual; advances or loans to stockholders and officers in the case of a corporation; and advances or loans to partners in the case of a partnership.

C. The commission shall either grant or deny each application for registration within 30 days after it is filed.

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# Regulations

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However, if additional time is needed to obtain or verify information regarding the application, the commission may extend such period as much as 90 days by giving written notice to the applicant. No more than three such extensions may be made by the commission on any one application. An extension of the initial 30-day period, not to exceed 90 days, shall be granted upon written request of the applicant.

D. Every person who transacts business in this Commonwealth as a federal covered advisor shall file a notice as prescribed in subsection E of this section in compliance with all requirements of the ~~Investment Advisor Registration Depository (IARD) system~~ IARD.

E. A notice filing for a federal covered advisor shall be deemed incomplete unless the federal covered advisor submits the following executed forms, fee, and information are submitted:

1. Form ADV Parts 1 and 2.
2. ~~The statutory~~ A fee made payable to FINRA in the amount of \$200 ~~submitted to the IARD system.~~

## **21VAC5-80-30. Renewals.**

A. To renew its registration, an investment advisor will be billed by ~~the IARD system~~ the statutory fee of \$200 prior to the annual expiration date. A renewal of registration shall be granted as of course upon payment of the proper fee together with any surety bond that the commission may require pursuant to 21VAC5-80-180 B unless the registration was, or the renewal would be, subject to revocation under § 13.1-506 of the Act.

B. To renew its notice filing, a federal covered advisor will be billed by ~~the IARD system~~ the statutory fee of \$200 prior to the annual expiration date. A renewal of notice filing shall be granted as a matter of course upon payment of the proper fee.

## **21VAC5-80-40. Updates and amendments.**

A. An investment advisor or federal covered advisor shall ~~update its Form ADV as required by item 4, "When am I required to update my Form ADV?" of Form ADV: General Instructions and shall file all such information with the IARD system~~ file electronically on IARD, in accordance with Form ADV instructions, any amendments to the investment advisor's Form ADV.

1. An amendment will be considered to be filed promptly if filed within 30 days of the event that requires the filing of the amendment; and
2. Within 90 days of the end of the investment advisor's fiscal year, an investment advisor must file electronically on IARD an Annual Updating Amendment to the Form ADV.
3. An investment advisor is prohibited from using an amendment until it receives notice of acceptance from the commission through IARD.

B. An investment advisor shall file the balance sheet as prescribed by Part ~~H 2A~~, Item ~~44 18~~ of Form ADV, unless excluded from such requirement, with the commission at its Division of Securities and Retail Franchising within 90 days of the investment advisor's fiscal year end. Any investment advisor who is registered in the state in which it maintains its principal place of business shall file with the commission at its Division of Securities and Retail Franchising any financial documents required to be filed by the state within 10 days of the time it must file these documents in such state.

C. A federal covered advisor shall maintain all other-than-Annual Amendments to Part H 2 of Form ADV at its principal place of business and shall make a copy available to the commission at its Division of Securities and Retail Franchising within five days of its request.

## **21VAC5-80-50. Termination of registration and notice filings.**

When an investment advisor or federal covered advisor desires to terminate its registration or notice filing, it shall file Form ADV-W ~~with the on IARD system.~~ Notice of termination by a federal covered advisor shall be effective upon receipt by the commission or at a later date specified in the notice.

## **21VAC5-80-60. Investment advisor merger or consolidation.**

In any merger, consolidation, or reorganization of an investment advisor or federal covered advisor, the surviving or new entity shall amend or file, as the case may be, a new application for registration or notice filing together with the proper fee ~~with the on IARD system.~~

For each investment advisor representative of the new or surviving entity who will transact business in this Commonwealth, an application for registration together with the proper fee or fees must also be filed ~~with the on IARD system~~ in full compliance with the forms prescribed by the commission. The foregoing filing requirement applies to each investment advisor representative who has a place of business located in the Commonwealth and who is connected with a federal covered advisor that is the new or surviving entity to the merger or consolidation.

### Part II

Investment Advisor Representative Registration, Expiration, Updates and Amendments, Termination, and Changing Connection from One Investment Advisor to Another

## **21VAC5-80-70. Application for registration as an investment advisor representative.**

A. Application for registration as an investment advisor representative shall be filed in compliance with all requirements of ~~the NASAA/NASD Central Registration Depository system~~ CRD and in full compliance with forms and regulations prescribed by the commission. The application shall include all information required by such forms.

B. An application shall be deemed incomplete for purposes of applying for registration as an investment advisor representative unless the following executed forms, fee and information are submitted:

1. Form ~~U-4~~ U4.
2. The statutory fee made payable to FINRA in the amount of \$30. ~~The check must be made payable to the NASD.~~
3. Evidence of passing: (i) the Uniform Investment Adviser Law Examination, Series 65; (ii) the Uniform Combined State Law Examination, Series 66, and the General Securities Representative Examination, Series 7; or (iii) a similar examination in general use by securities administrators which, after reasonable notice and subject to review by the commission, the Director of the Division of Securities and Retail Franchising designates.
4. All individuals listed on Part 1 of Form ADV in Schedule A and Item 2. A. of Part 1B as having supervisory ~~or control~~ responsibilities of the investment advisor shall take and pass the examinations as required in subdivision 3 of this subsection, and register as a representative of the investment advisor.
5. Any other information the commission may require.

C. The commission shall either grant or deny each application for registration within 30 days after it is filed. However, if additional time is needed to obtain or verify information regarding the application, the commission may extend such period as much as 90 days by giving written notice to the applicant. No more than three such extensions may be made by the commission on any one application. An extension of the initial 30-day period, not to exceed 90 days, shall be granted upon written request of the applicant.

**21VAC5-80-90. Renewals.**

To renew the registration of its investment advisor representatives, an investment advisor or federal covered advisor will be billed by ~~the IARD system~~ the statutory fee of \$30 per investment advisor representative. A renewal of registration shall be granted as a matter of course upon payment of the proper fee or fees unless the registration was, or the renewal would be, subject to revocation under § 13.1-506 of the Act.

**21VAC5-80-100. Updates and amendments.**

An investment advisor representative shall amend or update Form ~~U-4~~ U4 as required by the ~~“General Instructions” of Form U-4 Instructions.~~ “Amendment Filings” provisions set forth under “How to Use Form U4.” All filings shall be made in compliance with all requirements of ~~the NASAA/NASD Central Registration Depository system~~ CRD.

**21VAC5-80-110. Termination of registration.**

A. When an investment advisor representative terminates a ~~connection~~ his registration with an investment advisor, or an investment advisor terminates ~~connection with~~ an investment advisor ~~representative~~ representative's registration, the

investment advisor shall file ~~with the NASAA/NASD Central Registration Depository system~~ notice of such termination on Form ~~U-5~~ U5 within 30 calendar days of the date of termination. All filings shall be made on CRD.

B. When an investment advisor representative terminates a ~~connection~~ his registration with a federal covered advisor, the federal covered advisor shall file ~~with the NASAA/NASD Central Registration Depository system~~ notice of such termination on Form ~~U-5~~ U5 within 30 calendar days of the date of termination. All filings shall be made on CRD.

C. If a representative learns that the investment advisor has not filed the appropriate notice, the representative may file notice with the commission at its Division of Securities and Retail Franchising. The commission may terminate the representative's registration if the commission determines that an investment advisor (i) is no longer in existence, (ii) has ceased conducting securities business, or (iii) cannot reasonably be located.

**21VAC5-80-130. Examination/qualification.**

A. An individual applying for registration as an investment advisor representative shall be required to provide evidence of passing within the two-year period immediately preceding the date of the application: (i) the Uniform Investment Adviser Law Examination, Series 65; (ii) the Uniform Combined State Law Examination, Series 66 and the General Securities Representative Examination, Series 7; or (iii) a similar examination in general use by securities administrators which, after reasonable notice and subject to review by the commission, the Director of the Division of Securities and Retail Franchising designates.

B. Any individual who has been registered as an investment advisor or investment advisor representative in any state jurisdiction requiring the registration and qualification of investment advisors or investment advisor representatives within the two-year period immediately preceding the date of the filing of an application shall not be required to satisfy the examination requirements set forth in subsection A of this section, except that the commission may require additional examinations for any individual found to have violated any federal or state securities laws.

C. The examination requirements shall not apply to an individual who currently holds one of the following professional designations:

1. Certified Financial Planner (CFP) issued by the Certified Financial Planner Board of Standards, Inc.;
2. Chartered Financial Consultant (ChFC) awarded by The American College, Bryn Mawr, Pennsylvania;
3. Personal Financial Specialist (PFS) administered by the American Institute of Certified Public Accountants;
4. Chartered Financial Analyst (CFA) granted by the Association for Investment Management and Research;
5. Chartered Investment Counselor (CIC) granted by the Investment Counsel Association of America; or



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# Regulations

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6. Such other professional designation, after reasonable notice and subject to review by the commission, as the Director of the Division of Securities and Retail Franchising designates.

D. In lieu of meeting the examination requirement described in subsection A of this section, an applicant who meets all the qualifications set forth below may file with the commission at its Division of Securities and Retail Franchising an executed Affidavit for Waiver of Examination (Form S.A.3).

1. No more than one other individual connected with the applicant's investment advisor is utilizing the waiver at the time the applicant files Form S.A.3.

2. The applicant is, and has been for at least the five years immediately preceding the date on which the application for registration is filed, actively engaged in the investment advisory business.

3. The applicant has been for at least the two years immediately preceding the date on which the application is filed the president, chief executive officer or chairman of the board of directors of an investment advisor organized in corporate form or the managing partner, member, trustee or similar functionary of an investment advisor organized in noncorporate form.

4. The investment advisor or advisors referred to in subdivision 3 of this subsection has been actively engaged in the investment advisory business and during the applicant's tenure as president, chief executive officer, chairman of the board of directors, or managing partner, member, trustee or similar functionary had at least \$40 million under management.

5. The applicant verifies that he has read and is familiar with the investment advisor and investment advisor representative provisions of the Act and the provisions of Parts I through V of this chapter.

6. The applicant verifies that none of the questions in Item 14 (disciplinary history) on his Form U-4 U4 have been, or need be, answered in the affirmative.

### Part III

#### Investment Advisor, Federal Covered Advisor and Investment Advisor Representative Regulations

#### 21VAC5-80-145. Custody requirements for investment advisors. (Repealed.)

~~A. For purposes of this section, the following definitions shall apply:~~

~~1. "Custody" means holding directly or indirectly, client funds or securities, or having any authority to obtain possession of them (which may include possession of a user ID and password):~~

~~a. Custody includes:~~

~~(1) Possession of client funds or securities unless received inadvertently and returned to the sender~~

~~promptly, but in any case within three business days of receiving them;~~

~~(2) Any arrangement (including a general power of attorney) under which the investment advisor is permitted to withdraw client funds or securities maintained with a custodian upon the investment advisor's instruction to the custodian; and~~

~~(3) Any capacity (such as general partner of a limited partnership, managing member of a limited liability company, or a comparable position for another type of pooled investment vehicle, or trustee of a trust) that gives the investment advisor or the investment advisor's supervised person legal ownership of or access to client funds or securities.~~

~~b. Receipt of client's securities or checks drawn by clients and made payable to unrelated third parties will not meet the definition of custody if forwarded to the third party within 24 hours of receipt and the advisor maintains the following records:~~

~~(1) A ledger or other listing of all securities or funds held or obtained, including the following information:~~

~~(a) Issuer;~~

~~(b) Type of security and series;~~

~~(c) Date of issue;~~

~~(d) For debt instruments, the denomination, interest rate and maturity date;~~

~~(e) Certificate number, including alphabetical prefix or suffix;~~

~~(f) Name in which registered;~~

~~(g) Date given to the advisor;~~

~~(h) Date sent to client or sender;~~

~~(i) Form of delivery to client or sender, or copy of the form of delivery to client or sender; and~~

~~(j) Mail confirmation number, if applicable, or confirmation by client or sender of the fund's or security's return.~~

~~2. "Independent representative" means a person who:~~

~~a. Acts as agent for an advisory client, including in the case of a pooled investment vehicle, for limited partners of a limited partnership, members of a limited liability company, or other beneficial owners of another type of pooled investment vehicle and by law or contract is obliged to act in the best interest of the advisory client or the limited partners, members, or other beneficial owners;~~

~~b. Does not control, is not controlled by, and is not under common control with the investment advisor; and~~

~~e. Does not have, and has not had within the past two years, a material business relationship with the investment advisor.~~

3. "Qualified custodian" means the following independent institutions or entities that are not affiliated with the advisor by any direct or indirect common control and have not had a material business relationship with the advisor in the previous two years:

- a. A bank or savings association that has deposits insured by the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act, 12 USC § 1813;
- b. A registered broker dealer holding the client assets in customer accounts;
- c. A registered futures commission merchant registered under § 4f(a) of the Commodity Exchange Act, 7 USC § 6f(a), holding the client assets in customer accounts, but only with respect to clients' funds and security futures, or other securities incidental to transactions in contracts for the purchase or sale of a commodity for future delivery and options thereon; and
- d. A foreign financial institution that customarily holds financial assets for its customers, provided that the foreign financial institution keeps the advisory clients' assets in customer accounts segregated from its proprietary assets.

**B. Requirements.**

1. If the investment advisor is registered or required to be registered, it is unlawful and deemed to be a fraudulent, deceptive, or manipulative act, practice, or course of business under § 13.1-503 of the Virginia Securities Act for the investment advisor to have custody of client funds or securities unless:

- a. The investment advisor notifies the commission in writing that the investment advisor has or may have custody. Such notification is required on Form ADV submitted to the IARD system;
- b. A qualified custodian maintains those funds and securities in a separate account for each client under that client's name or in accounts that contain only investment advisor's clients' funds and securities, under the investment advisor's name as agent or trustee for the clients;
- c. If the investment advisor opens an account with a qualified custodian on his client's behalf, either under the client's name or under the investment advisor's name as agent, the investment advisor must notify the client in writing of the qualified custodian's name, address, and the manner in which the funds or securities are maintained, promptly when the account is opened and following any changes to this information;
- d. At least quarterly, the investment advisor sends a copy of the qualified custodian's account statements or a proprietary account statement to each client for whom the investment advisor has custody of funds or securities, identifying the amount of funds and of each security of which the investment advisor has custody at the end of

the period and setting forth all transactions during that period and if proprietary account statements are utilized or the advisor has custody pursuant to subdivision A 1 a (3) of this section and does not comply with subdivision 4 of this subsection;

- (1) An independent certified public accountant verifies all client funds and securities by actual examination at least once during each calendar year at a time chosen by the accountant without prior notice or announcement to the advisor and that is irregular from year to year, and files a copy of the auditor's report and financial statements with the commission within 30 days after the completion of the examination, along with a letter stating that it has examined the funds and securities and describing the nature and extent of the examination;
- (2) The independent certified public accountant, upon finding any material discrepancies during the course of the examination, notifies the commission within one business day of the finding, by means of a facsimile transmission or electronic mail, followed by first class mail, directed to the attention of the Division of Securities and Retail Franchising;
- (3) If the investment advisor is a general partner of a limited partnership (or managing member of a limited liability company, or holds a comparable position for another type of pooled investment vehicle), the account statements required under subdivision 1 d of this subsection must be sent to each limited partner (or member or other beneficial owner or their independent representative); and
- (4) A client may designate an independent representative to receive, on his behalf, notices and account statements as required under subdivisions 1 c and d of this subsection.

2. An advisor who has custody as defined in subdivision A 1 a (2) of this section by having fees directly deducted from client accounts shall provide the following safeguards:

- a. The investment advisor must have written authorization from the client to deduct advisory fees from the account held with the qualified custodian.
- b. Each time a fee is directly deducted from a client account, the investment advisor must concurrently:
  - (1) Unless a qualified custodian is calculating the fee, send the qualified custodian an invoice of the amount of the fee to be deducted from the client's account; and
  - (2) Send the client an invoice itemizing the fee. Itemization includes the formula used to calculate the fee, the amount of assets under management the fee is based on, and the time period covered by the fee. The invoice will notify the client that the custodian will not be checking the accuracy of the fees and this responsibility is the client's.

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# Regulations

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~~e. The investment advisor notifies the commission in writing that the investment advisor intends to use the safeguards provided above. Such notification is required to be given on Schedule F of the Form ADV.~~

~~d. An investment advisor having custody solely because it meets the definition of custody as defined in subdivision A 1 a (2) of this section and who complies with the safekeeping requirements in subdivisions 1 and 2 of this subsection will not be required to meet the financial requirements for custodial advisors as set forth in 21VAC5-80-180 and subdivisions 1 d (1) and (2) of this subsection provided the investment advisor sends a copy of the qualified custodian's account statements in accordance with subdivision 1 d of this subsection.~~

~~3. An investment advisor who has custody as defined in subdivision A 1 a (3) of this section and who does not meet the exception provided in subdivision C 3 of this section must, in addition to the safeguards set forth in subdivisions 1 a through d of this subsection, also comply with the following:~~

~~a. Hire a qualified independent party to review all fees, expenses, and capital withdrawals from the pooled accounts.~~

~~b. Send all invoices or receipts to the qualified independent party, detailing the amount of the fee, expenses, or capital withdrawal and the method of calculation such that the qualified independent party can:~~

~~(1) Determine that the payment is in accordance with the pooled investment vehicle standards (generally the partnership agreement or membership agreement); and~~

~~(2) Forward, to the qualified custodian, approval for payment of the invoice with a copy to the investment advisor.~~

~~e. For purposes of this section, a qualified independent party means a person who:~~

~~(1) Is engaged by an investment advisor to act as a financially qualified gatekeeper for the payment of fees, expenses, and capital withdrawals from the pooled investment (Examples would include an independent CPA or an attorney);~~

~~(2) Does not control and is not controlled by and is not under common control with the investment advisor, either directly or indirectly; and~~

~~(3) Does not have, and has not had within the past two years, any other material business relationship with the investment advisor.~~

~~d. The investment advisor notifies the commission in writing that the investment advisor intends to use the safeguards provided above. Such notification is required to be given on Schedule F of the Form ADV.~~

~~e. An investment advisor having custody solely because it meets the definition of custody as defined in~~

~~subdivision A 1 a (3) of this section and who complies with the safekeeping requirements in subdivisions 1 and 3 of this subsection will not be required to meet the financial requirements for custodial advisors as set forth in 21VAC5-80-180.~~

~~4. When a trust retains an investment advisor, investment advisor representative, or employee, director, or owner of an investment advisor as trustee, and the investment advisor acts as the investment advisor to that trust, the investment advisor shall:~~

~~a. Notify the commission in writing that the investment advisor intends to use the safeguards provided below. Such notification is required to be given on Form ADV submitted to the IARD system.~~

~~b. Send to the grantor of the trust, the attorney for the trust if it is a testamentary trust, the co-trustee (other than the investment advisor; investment advisor representative; or employee, director, or owner of the investment advisor); or a defined beneficiary of the trust, at the same time that it sends any invoice to the qualified custodian, an invoice showing the amount of the trustees' fee or investment management or advisory fee, the value of the assets on which the fees were based, and the specific manner in which the fees were calculated. The invoice will notify the recipient that the custodian will not be checking the accuracy of the fees and that the responsibility is either the grantor's, trust's attorney's, co-trustee's or beneficiary's.~~

~~e. Enter into a written agreement with a qualified custodian that specifies the qualified custodian will not deliver trust securities to the investment advisor, any investment advisor representative or employee, director, or owner of the investment advisor, nor will transmit any funds to the investment advisor; any investment advisor representative or employee; director or owner of the investment advisor, except that the qualified custodian may pay trustees' fees to the trustee and investment management or advisory fees to investment advisor, provided that:~~

~~(1) The grantor of the trust or attorneys for the trust, if it is a testamentary trust, the co-trustee (other than the investment advisor; investment advisor representative; or employee, director, or owner of the investment advisor); or a defined beneficiary of the trust has authorized the qualified custodian in writing to pay those fees;~~

~~(2) The statements for those fees show the amount of the fees for the trustee and, in the case of statements for investment management or advisory fees, show the value of the trust assets on which the fee is based and the manner in which the fee was calculated; and~~

~~(3) The qualified custodian agrees to send to the grantor of the trust, the attorneys for a testamentary trust, the co-trustee (other than the investment advisor; investment advisor representative; or employee, director, or owner of~~

the investment advisor); or a defined beneficiary of the trust, at least quarterly, a statement of all disbursements from the account of the trust, including the amount of investment management fees paid to the investment advisor and the amount of trustees' fees paid to the trustee.

d. Except as otherwise set forth in subdivision 4 d (1) of this subsection, the qualified custodian may transfer funds or securities, or both, of the trust only upon the direction of the trustee (who may be the investment advisor; investment advisor representative; or employee, director, or owner of the investment advisor), who the investment advisor has duly accepted as an authorized signatory. The grantor of the trust or attorneys for the trust, if it is a testamentary trust, the co trustee (other than the investment advisor; investment advisor representative; or employee, director, or owner of the investment advisor); or a defined beneficiary of the trust, must designate the authorized signatory for management of the trust. The direction to transfer funds or securities, or both, can only be made to the following:

- (1) To a trust company, bank trust department, or brokerage firm independent of the investment advisor for the account of the trust to which the assets relate;
- (2) To the named grantors or to the named beneficiaries of the trust;
- (3) To a third person independent of the investment advisor in payment of the fees or charges of the third person including, but not limited to:
  - (a) Attorney's, accountant's, or qualified custodian's fees for the trust; and
  - (b) Taxes, interest, maintenance, or other expenses, if there is property other than securities or cash owned by the trust;
- (4) To third persons independent of the investment advisor for any other purpose legitimately associated with the management of the trust; or
- (5) To a broker dealer in the normal course of portfolio purchases and sales, provided that the transfer is made on payment against delivery basis or payment against trust receipt.

e. An investment advisor having custody solely because it meets the definition of custody as defined in subdivision A 1 a (3) of this section and who complies with the safekeeping requirements in subdivisions 1 and 4 of this subsection, will not be required to meet the financial requirements for custodial advisors as set forth in 21VAC5-80-180.

#### C. Exceptions.

1. With respect to shares of an open end company as defined in § 5(a)(1) of the Investment Company Act of 1940, 15 USC § 80a 5(a)(1) (mutual fund), the investment advisor may use the mutual fund's transfer agent in lieu of

a qualified custodian for purposes of complying with subsection B of this section.

#### 2. Certain privately offered securities.

a. An investment advisor is not required to comply with subsection B of this section with respect to securities that are:

- (1) Acquired from the unaffiliated issuer in a transaction or chain of transactions not involving any public offering;
- (2) Uncertificated, and ownership thereof is recorded only on books of the issuer or its transfer agent in the name of the client; and
- (3) Transferable only with prior consent of the issuer or holders of the outstanding securities of the issuer.

b. Notwithstanding subdivision 2 a of this subsection, the provisions of subdivision 2 of this subsection are available with respect to securities held for the account of a limited partnership (or limited liability company, or other type of pooled investment vehicle) only if the limited partnership is audited, the audited financial statements are distributed, as described in subdivision 3 of this subsection and the investment advisor notifies the commission in writing that the investment advisor intends to provide audited financial statements, as described above. Such notification is required to be given on Schedule F of the Form ADV.

3. The investment advisor is not required to comply with subdivision B 1 d (1) through (3) of this section with respect to the account of a limited partnership (or limited liability company, or another type of pooled investment vehicle) that is subject to audit at least annually and distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all limited partners (or members or other beneficial owners) within 120 days of the end of its fiscal year. The investment advisor shall also notify the commission in writing that the investment advisor intends to employ the use of the audit safeguards described above. Such notification is required to be given on Schedule F of the Form ADV.

4. The investment advisor is not required to comply with this section with respect to the account of an investment company registered under the Investment Company Act of 1940, 15 USC §§ 80a 1 to 80a 64.

5. The investment advisor is not required to comply with safekeeping requirements of subsection B of this section or the net worth and bonding requirements of 21VAC5-80-180 if the investment advisor has custody solely because the investment advisor, investment advisor representative or employee, director, or owner of the investment advisor is a trustee for a beneficial trust, if all of the following conditions are met for each trust:

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# Regulations

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~~a. The beneficial owner of the trust is a parent, a grandparent, a spouse, a sibling, a child, a grandchild, or other family relative designated as the legal beneficiary of the trustee. These relationships shall include "step" relationships.~~

~~b. For each account under subdivision 5 a of this subsection the investment advisor complies with the following:~~

~~(1) Provide a written statement to each beneficial owner of the account setting forth a description of the requirements of subsection B of this section and the reasons why the investment advisor will not be complying with those requirements.~~

~~(2) Obtain from each beneficial owner a signed and dated statement acknowledging the receipt of the written statement required under subdivision 5 b (1) of this subsection.~~

~~(3) Maintain a copy of both documents described in subdivisions 5 b (1) and (2) of this subsection until the account is closed or the investment advisor is no longer trustee.~~

~~6. Any investment advisor who intends to have custody of client funds or securities but is not able to utilize a qualified custodian as defined in subdivision A 3 of this section shall first obtain specific approval, in writing, from the commission and comply with all of the applicable safekeeping provisions under subsection B of this section including taking responsibility for those provisions that are designated to be performed by a qualified custodian.~~

## Part III

### Investment Advisor, Federal Covered Advisor, and Investment Advisor Representative Regulations

#### **21VAC5-80-146. Custody of client funds or securities by investment advisors.**

A. For purposes of this section the following definitions shall apply:

"Control" means the power, directly or indirectly, to direct the management or policies of a person whether through ownership of securities, by contract, or otherwise. Control includes:

1. Each of the investment advisor's officers, partners, or directors exercising executive responsibility (or persons having similar status or functions) is presumed to control the investment advisor;

2. A person is presumed to control a corporation if the person:

a. Directly or indirectly has the right to vote 25% or more of a class of the corporation's voting securities; or

b. Has the power to sell or direct the sale of 25% or more of a class of the corporation's voting securities;

3. A person is presumed to control a partnership if the person has the right to receive upon dissolution, or has contributed, 25% or more of the capital of the partnership;

4. A person is presumed to control a limited liability company if the person:

a. Directly or indirectly has the right to vote 25% or more of a class of the interests of the limited liability company;

b. Has the right to receive upon dissolution, or has contributed, 25% or more of the capital of the limited liability company;

c. Is an elected manager of the limited liability company;  
or

5. A person is presumed to control a trust if the person is a trustee or managing agent of the trust.

"Custody" means holding directly or indirectly, client funds or securities, or having any authority to obtain possession of them or has the ability to appropriate them. The investment advisor has custody if a related person holds, directly or indirectly, client funds or securities, or has any authority to obtain possession of them, in connection with advisory services the investment advisor provides to clients.

1. Custody includes:

a. Possession of client funds or securities unless the investment advisor receives them inadvertently and returns them to the sender promptly but in any case within three business days of receiving them;

b. Any arrangement (including general power of attorney) under which the investment advisor is authorized or permitted to withdraw client funds or securities maintained with a custodian upon the investment advisor's instruction to the custodian; and

c. Any capacity (such as general partner of a limited partnership, managing member of a limited liability company or a comparable position for another type of pooled investment vehicle, or trustee of a trust) that gives the investment advisor or its supervised person legal ownership of or access to client funds or securities.

2. Receipt of checks drawn by clients and made payable to third parties will not meet the definition of custody if forwarded to the third party within three business days of receipt and the investment advisor maintains the records required under 21VAC5-80-160 A 23;

"Independent certified public accountant" means a certified public accountant that meets the standards of independence described in Rule 2-01(b) and (c) of Regulation S-X (17 CFR 210.2-01(b) and (c)).

"Independent party" means a person that:

1. Is engaged by the investment advisor to act as a gatekeeper for the payment of fees, expenses, and capital withdrawals from the pooled investment;

2. Does not control and is not controlled by and is not under common control with the investment advisor;

3. Does not have, and has not had within the past two years, a material business relationship with the investment advisor; and

4. Shall not negotiate or agree to have material business relations or commonly controlled relations with an investment advisor for a period of two years after serving as the person engaged in an independent party agreement.

"Independent representative" means a person who:

1. Acts as agent for an advisory client, including in the case of a pooled investment vehicle, for limited partners of a limited partnership, members of a limited liability company, or other beneficial owners of another type of pooled investment vehicle and by law or contract is obliged to act in the best interest of the advisory client or the limited partners, members, or other beneficial owners;

2. Does not control, is not controlled by, and is not under common control with investment advisor; and

3. Does not have, and has not had within the past two years, a material business relationship with the investment advisor.

"Qualified custodian" means:

1. A bank or savings association that has deposits insured by the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act;

2. A broker-dealer registered in this jurisdiction and with the SEC holding the client assets in customer accounts;

3. A registered futures commission merchant registered under Section 4f(a) of the Commodity Exchange Act, holding the client assets in customer accounts, but only with respect to clients' funds and security futures, or other securities incidental to transactions in contracts for the purchase or sale of a commodity for future delivery and options thereon; and

4. A foreign financial institution that customarily holds financial assets for its customers, provided that the foreign financial institution keeps the advisory clients' assets in customer accounts segregated from its proprietary assets.

"Related person" means any person, directly or indirectly, controlling or controlled by the investment advisor, and any person that is under common control with the investment advisor.

B. Requirements: It is unlawful and deemed to be a fraudulent, deceptive, or manipulative act, practice, or course of business for an investment advisor, registered or required to be registered, to have custody of client funds or securities unless:

1. The investment advisor notifies the commission promptly in writing that the investment advisor has or may have custody. Such notification is required to be given on Form ADV.

2. A qualified custodian maintains those funds and securities:

a. In a separate account for each client under that client's name; or

b. In accounts that contain only the investment advisor's clients' funds and securities, under the investment advisor's name as agent or trustee for the clients, or, in the case of a pooled investment vehicle that the investment advisor manages, in the name of the pooled investment vehicle.

3. If an investment advisor opens an account with a qualified custodian on its client's behalf, under the client's name, under the name of the investment advisor as agent, or under the name of a pooled investment vehicle, the investment advisor must notify the client in writing of the qualified custodian's name, address, and the manner in which the funds or securities are maintained, promptly when the account is opened and following any changes to this information. If the investment advisor sends account statements to a client to which the investment advisor is required to provide this notice, and the investment advisor must include in the notification provided to that client and in any subsequent account statement the investment advisor sends that client a statement urging the client to compare the account statements from the custodian with those from the investment advisor.

4. The investment advisor has a reasonable basis, after due inquiry, for believing that the qualified custodian sends an account statement, at least quarterly, to each client for which it maintains funds or securities, identifying the amount of funds and of each security in the account at the end of the period and setting forth all transactions in the account during that period.

5. If the investment advisor or a related person is a general partner of a limited partnership (or managing member of a limited liability company, or holds a comparable position for another type of pooled investment vehicle):

a. The account statements required under subdivision 4 of this subsection must be sent to each limited partner (or member or other beneficial owner), and

b. The investment advisor must:

(1) Enter into a written agreement with an independent party who is obliged to act in the best interest of the limited partners, members, or other beneficial owners to review all fees, expenses and capital withdrawals from the pooled accounts;

(2) Send all invoices or receipts to the independent party, detailing the amount of the fee, expenses or capital withdrawal and the method of calculation such that the independent party can:

(a) Determine that the payment is in accordance with the pooled investment vehicle standards (generally the partnership agreement or membership agreement); and

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# Regulations

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(b) Forward, to the qualified custodian, approval for payment of the invoice with a copy to the investment advisor.

6. An independent certified public accountant, pursuant to a written agreement between the investment advisor and the independent certified public accountant, verifies by actual examination at least once during each calendar year the client funds and securities of which the investment advisor has custody. The time will be chosen by the independent certified public accountant without prior notice or announcement to the investment advisor and will be irregular from year to year. The written agreement must provide for the first examination to occur within six months of becoming subject to this subdivision, except that, if the investment advisor maintains client funds or securities pursuant to this section as a qualified custodian, the agreement must provide for the first examination to occur no later than six months after obtaining the internal control report. The written agreement must require the independent certified public accountant to:

a. File a certificate on Form ADV-E with the commission within 120 days of the time chosen by the independent certified public accountant in subdivision 6 of this subsection, stating that it has examined the funds and securities and describing the nature and extent of the examination;

b. Upon finding any material discrepancies during the course of the examination, notify the commission within one business day of the finding, by means of a facsimile transmission or electronic mail, followed by first class mail, directed to the attention of the commission; and

c. Upon resignation or dismissal from, or other termination of, the engagement, or upon removing itself or being removed from consideration for being reappointed, file within four business days Form ADV-E accompanied by a statement that includes:

(1) The date of such resignation, dismissal, removal, or other termination, and the name, address, and contact information of the independent certified public accountant; and

(2) An explanation of any problems relating to examination scope or procedure that contributed to such resignation, dismissal, removal, or other termination.

7. If the investment advisor maintains, or if the investment advisor has custody because a related person maintains, client funds or securities pursuant to this section as a qualified custodian in connection with advisory services the investment advisor provides to clients:

a. The independent certified public accountant the investment advisor retains to perform the independent verification required by subdivision 6 of this subsection must be registered with, and subject to regular inspection as of the commencement of the professional engagement

period, and as of each calendar year-end, by the Public Company Accounting Oversight Board in accordance with its rules; and

b. The investment advisor must obtain, or receive from its related person, within six months of becoming subject to this subdivision and thereafter no less frequently than once each calendar year a written internal control report prepared by an independent certified public accountant:

(1) The internal control report must include an opinion of an independent certified public accountant as to whether controls have been placed in operation as of a specific date, are suitably designed, and are operating effectively to meet control objectives relating to custodial services, including the safeguarding of funds and securities held by either the investment advisor or a related person on behalf of the investment advisors clients, during the year;

(2) The independent certified public accountant must verify that the funds and securities are reconciled to a custodian other than the investment advisor or the investment advisors related person; and

(3) The independent certified public accountant must be registered with and subject to regular inspection as of the commencement of the professional engagement period, and as of each calendar year-end, by the Public Company Accounting Oversight Board in accordance with its rules.

8. A client may designate an independent representative to receive on his behalf notices and account statements as required under subdivisions 3 and 4 of this subsection.

## C. Exceptions:

1. With respect to shares of an open-end company as defined in Section 5(a)(1) of the Investment Company Act of 1940 ("mutual fund"), the investment advisor may use the mutual fund's transfer agent in lieu of a qualified custodian for purposes of complying with subsection B of this section;

2. Certain privately offered securities are exempt, including:

a. The investment advisor is not required to comply with subdivision B 2 of this section with respect to securities that are:

(1) Acquired from the issuer in a transaction or chain of transactions not involving any public offering;

(2) Uncertificated and ownership thereof is recorded only on the books of the issuer or its transfer agent in the name of the client; and

(3) Transferable only with prior consent of the issuer or holders of the outstanding securities of the issuer.

b. Notwithstanding subdivision 2 a of this subsection, the provisions of this subdivision 2 are available with respect to securities held for the account of a limited partnership (or limited liability company, or other type of pooled investment vehicle) only if the limited partnership is

audited, and the audited financial statements are distributed, as described in subdivision 4 of this subsection and the investment advisor notifies the commission in writing that the investment advisor intends to provide audited financial statements as described above. Such notification is required to be provided on Form ADV.

3. Notwithstanding subdivision B 6 of this section, an investment advisor is not required to obtain an independent verification of client funds and securities maintained by a qualified custodian if all of the following are met:

a. The investment advisor has custody of the funds and securities solely as a consequence of its authority to make withdrawals from client accounts to pay its advisory fee;

b. The investment advisor has written authorization from the client to deduct advisory fees from the account held with the qualified custodian;

c. Each time a fee is directly deducted from a client account, the investment advisor concurrently:

(1) Sends the qualified custodian or if subdivision B 5 of this section applies sends the independent party designated pursuant to subdivision B 5 b (2) of this section, an invoice or statement of the amount of the fee to be deducted from the client's account; and

(2) Sends the client an invoice or statement itemizing the fee. Itemization includes the formula used to calculate the fee, the amount of assets under management the fee is based on, and the time period covered by the fee. The invoice will notify the client that the custodian will not be checking the accuracy of the fees and this responsibility is the client's.

d. The investment advisor notifies the commission in writing that the investment advisor intends to use the safeguards provided above. Such notification is required to be given on Form ADV.

Check Item 9.A. on Form ADV Part 1A as "No" if the only reason the investment advisors have custody is because they engage in direct fee deduction. Item 2.I. of Form ADV Part 1B asks detailed questions that are more useful in determining associated risk.

4. An investment advisor is not required to comply with subdivisions B 3 and B 4 of this section and shall be deemed to have complied with subdivision B 6 of this section with respect to the account of a limited partnership (or limited liability company, or another type of pooled investment vehicle) if each of the following conditions are met:

a. The advisor sends to all limited partners (or members or other beneficial owners) at least quarterly, a statement, showing:

(1) The total amount of all additions to and withdrawals from the fund as a whole as well as the opening and

closing value of the fund at the end of the quarter based on the custodian's records;

(2) A listing of all long and short positions on the closing date of the statement in accordance with FASB Rule Accounting Standards Codification (ASC) 946-210-50;

(3) The total amount of additions to and withdrawals from the fund by the investor as well as the total value of the investor's interest in the fund at the end of the quarter.

The listing in subdivision 4 a (2) of this subsection follows FASB Rule Accounting Standards Codification (ASC) 946-210-50-6 whereby long and short positions representing more than 5.0% of the net assets of the fund must be reported as outlined in subsection 50-6 of the FASB Rule. All provisions of subsection 50-6 in the FASB Rule apply to the position disclosure required on the quarterly customer statement. This is the same reporting format required by Rule 13F under the Securities Exchange Act of 1934 for investment managers' annual reports.

b. At least annually the fund is subject to an audit and distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all limited partners (or members or other beneficial owners) and the commission within 120 days of the end of its fiscal year;

c. The audit is performed by an independent certified public accountant that is registered with, and subject to regular inspection as of the commencement of the professional engagement period, and as of each calendar year-end, by the Public Company Accounting Oversight Board in accordance with its rules;

d. Upon liquidation, the advisor distributes the fund's final audited financial statements prepared in accordance with generally accepted accounting principles to all limited partners (or members or other beneficial owners) and the commission promptly after the completion of such audit;

e. The written agreement with the independent certified public accountant must require the independent certified public accountant to, upon resignation or dismissal from, or other termination of, the engagement, or upon removing itself or being removed from consideration for being reappointed, notify the commission within four business days accompanied by a statement that includes:

(1) The date of such resignation, dismissal, removal, or other termination, and the name, address, and contact information of the independent certified public accountant; and

(2) An explanation of any problems relating to audit scope or procedure that contributed to such resignation, dismissal, removal, or other termination.

f. The investment advisor must also notify the commission in writing that the investment advisor intends to employ the use of the statement delivery and



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# Regulations

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audit safeguards described above. Such notification is required to be given on Form ADV.

5. The investment advisor is not required to comply with this section with respect to the account of an investment company registered under the Investment Company Act of 1940.

D. Delivery to related persons. Sending an account statement under subdivision B 5 of this section or distributing audited financial statements under subdivision C 4 of this section shall not satisfy the requirements of this section if such account statements or financial statements are sent solely to limited partners (or members or other beneficial owners) that themselves are limited partnerships (or limited liability companies, or another type of pooled investment vehicle) and are related persons.

## **21VAC5-80-160. Recordkeeping requirements for investment advisors.**

A. Every investment advisor registered or required to be registered under the Act shall make and keep true, accurate and current the following books, ledgers and records, except an investment advisor having its principal place of business outside this Commonwealth and registered or licensed, and in compliance with the applicable books and records requirements, in the state where its principal place of business is located, shall only be required to make, keep current, maintain and preserve such of the following required books, ledgers and records as are not in addition to those required under the laws of the state in which it maintains its principal place of business:

1. A journal or journals, including cash receipts and disbursements records, and any other records of original entry forming the basis of entries in any ledger.
2. General and auxiliary ledgers (or other comparable records) reflecting asset, liability, reserve, capital, income and expense accounts.
3. A memorandum of each order given by the investment advisor for the purchase or sale of any security, of any instruction received by the investment advisor from the client concerning the purchase, sale, receipt or delivery of a particular security, and of any modification or cancellation of any such order or instruction. The memoranda shall show the terms and conditions of the order, instruction, modification or cancellation; shall identify the person connected with the investment advisor who recommended the transaction to the client and the person who placed the order; and shall show the account for which entered, the date of entry, and the bank, broker or dealer by or through whom executed where appropriate. Orders entered pursuant to the exercise of discretionary power shall be so designated.
4. All check books, bank statements, canceled checks and cash reconciliations of the investment advisor.

5. All bills or statements (or copies of), paid or unpaid, relating to the business as an investment advisor.

6. All trial balances, financial statements prepared in accordance with generally accepted accounting principles which shall include a balance sheet, income statement and such other statements as may be required pursuant to 21VAC5-80-180, and internal audit working papers relating to the investment advisor's business as an investment advisor.

7. Originals of all written communications received and copies of all written communications sent by the investment advisor relating to (i) any recommendation made or proposed to be made and any advice given or proposed to be given; (ii) any receipt, disbursement or delivery of funds or securities; and (iii) the placing or execution of any order to purchase or sell any security; however, (a) the investment advisor shall not be required to keep any unsolicited market letters and other similar communications of general public distribution not prepared by or for the investment advisor, and (b) if the investment advisor sends any notice, circular or other advertisement offering any report, analysis, publication or other investment advisory service to more than 10 persons, the investment advisor shall not be required to keep a record of the names and addresses of the persons to whom it was sent; except that if the notice, circular or advertisement is distributed to persons named on any list, the investment advisor shall retain with a copy of the notice, circular or advertisement a memorandum describing the list and the source thereof.

8. A list or other record of all accounts which list identifies the accounts in which the investment advisor is vested with any discretionary power with respect to the funds, securities or transactions of any client.

9. All powers of attorney and other evidences of the granting of any discretionary authority by any client to the investment advisor, or copies thereof.

10. All written agreements (or copies thereof) entered into by the investment advisor with any client, and all other written agreements otherwise related to the investment advisor's business as an investment advisor.

11. A file containing a copy of each notice, circular, advertisement, newspaper article, investment letter, bulletin, or other communication including by electronic media that the investment advisor circulates or distributes, directly or indirectly, to two or more persons (other than persons connected with the investment advisor), and if the notice, circular, advertisement, newspaper article, investment letter, bulletin, or other communication including by electronic media recommends the purchase or sale of a specific security and does not state the reasons for the recommendation, a memorandum of the investment adviser indicating the reasons for the recommendation.

12. a. A record of every transaction in a security in which the investment advisor or any investment advisory representative of the investment advisor has, or by reason of any transaction acquires, any direct or indirect beneficial ownership, except (i) transactions effected in any account over which neither the investment advisor nor any investment advisory representative of the investment advisor has any direct or indirect influence or control; and (ii) transactions in securities which are direct obligations of the United States. The record shall state the title and amount of the security involved; the date and nature of the transaction (i.e., purchase, sale or other acquisition or disposition); the price at which it was effected; and the name of the broker, dealer or bank with or through whom the transaction was effected. The record may also contain a statement declaring that the reporting or recording of any such transaction shall not be construed as an admission that the investment advisor or investment advisory representative has any direct or indirect beneficial ownership in the security. A transaction shall be recorded not later than 10 days after the end of the calendar quarter in which the transaction was effected.

b. For purposes of this subdivision 12, the following definitions will apply. The term "advisory representative" means any partner, officer or director of the investment advisor; any employee who participates in any way in the determination of which recommendations shall be made; any employee who, in connection with his duties, obtains any information concerning which securities are being recommended prior to the effective dissemination of the recommendations; and any of the following persons who obtain information concerning securities recommendations being made by the investment advisor prior to the effective dissemination of the recommendations:

- (1) Any person in a control relationship to the investment adviser;
- (2) Any affiliated person of a controlling person; and
- (3) Any affiliated person of an affiliated person.

"Control" means the power to exercise a controlling influence over the management or policies of a company, unless such power is solely the result of an official position with the company. Any person who owns beneficially, either directly or through one or more controlled companies, more than 25% of the ownership interest of a company shall be presumed to control the company.

c. An investment advisor shall not be deemed to have violated the provisions of this subdivision 12 because of his failure to record securities transactions of any investment advisor representative if the investment advisor establishes that it instituted adequate procedures and used reasonable diligence to obtain promptly reports of all transactions required to be recorded.

13. a. Notwithstanding the provisions of subdivision 12 of this subsection, where the investment advisor is primarily engaged in a business or businesses other than advising investment advisory clients, a record must be maintained of every transaction in a security in which the investment advisor or any investment advisory representative of such investment advisor has, or by reason of such transaction acquires, any direct or indirect beneficial ownership, except (i) transactions effected in any account over which neither the investment advisor nor any investment advisory representative of the investment advisor has any direct or indirect influence or control; and (ii) transactions in securities which are direct obligations of the United States. The record shall state the title and amount of the security involved; the date and nature of the transaction (i.e., purchase, sale or other acquisition or disposition); the price at which it was effected; and the name of the broker, dealer or bank with or through whom the transaction was effected. The record may also contain a statement declaring that the reporting or recording of any such transaction shall not be construed as an admission that the investment advisor or investment advisory representative has any direct or indirect beneficial ownership in the security. A transaction shall be recorded not later than 10 days after the end of the calendar quarter in which the transaction was effected.

b. An investment advisor is "primarily engaged in a business or businesses other than advising investment advisory clients" when, for each of its most recent three fiscal years or for the period of time since organization, whichever is less, the investment advisor derived, on an unconsolidated basis, more than 50% of (i) its total sales and revenues, and (ii) its income (or loss) before income taxes and extraordinary items, from such other business or businesses.

c. For purposes of this subdivision 13, the following definitions will apply. The term "advisory representative," when used in connection with a company primarily engaged in a business or businesses other than advising investment advisory clients, means any partner, officer, director or employee of the investment advisor who participates in any way in the determination of which recommendation shall be made, or whose functions or duties relate to the determination of which securities are being recommended prior to the effective dissemination of the recommendations; and any of the following persons, who obtain information concerning securities recommendations being made by the investment advisor prior to the effective dissemination of the recommendations or of the information concerning the recommendations:

- (1) Any person in a control relationship to the investment adviser;
- (2) Any affiliated person of a controlling person; and

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# Regulations

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(3) Any affiliated person of an affiliated person.

d. An investment advisor shall not be deemed to have violated the provisions of this subdivision 13 because of his failure to record securities transactions of any investment advisor representative if he establishes that he instituted adequate procedures and used reasonable diligence to obtain promptly reports of all transactions required to be recorded.

14. A copy of each written statement and each amendment or revision, given or sent to any client or prospective client of such investment advisor in accordance with the provisions of 21VAC5-80-190 and a record of the dates that each written statement, and each amendment or revision, was given, or offered to be given, to any client or prospective client who subsequently becomes a client.

15. For each client that was obtained by the advisor by means of a solicitor to whom a cash fee was paid by the advisor, the following:

a. Evidence of a written agreement to which the advisor is a party related to the payment of such fee;

b. A signed and dated acknowledgement of receipt from the client evidencing the client's receipt of the investment advisor's disclosure statement and a written disclosure statement of the solicitor; and

c. A copy of the solicitor's written disclosure statement. The written agreement, acknowledgement and solicitor disclosure statement will be considered to be in compliance if such documents are in compliance with Rule 275.206(4)-3 of the Investment Advisers Act of 1940.

For purposes of this regulation, the term "solicitor" means any person or entity who, for compensation, acts as an agent of an investment advisor in referring potential clients.

16. All accounts, books, internal working papers, and any other records or documents that are necessary to form the basis for or demonstrate the calculation of the performance or rate of return of all managed accounts or securities recommendations in any notice, circular, advertisement, newspaper article, investment letter, bulletin, or other communication including but not limited to electronic media that the investment advisor circulates or distributes directly or indirectly, to two or more persons (other than persons connected with the investment advisor); however, with respect to the performance of managed accounts, the retention of all account statements, if they reflect all debits, credits, and other transactions in a client's account for the period of the statement, and all worksheets necessary to demonstrate the calculation of the performance or rate of return of all managed accounts shall be deemed to satisfy the requirements of this subdivision.

17. A file containing a copy of all written communications received or sent regarding any litigation involving the

investment advisor or any investment advisor representative or employee, and regarding any written customer or client complaint.

18. Written information about each investment advisory client that is the basis for making any recommendation or providing any investment advice to the client.

19. Written procedures to supervise the activities of employees and investment advisor representatives that are reasonably designed to achieve compliance with applicable securities laws and regulations.

20. A file containing a copy of each document (other than any notices of general dissemination) that was filed with or received from any state or federal agency or self regulatory organization and that pertains to the registrant or its investment advisor representatives, which file should contain, but is not limited to, all applications, amendments, renewal filings, and correspondence.

21. Any records documenting dates, locations and findings of the investment advisor's annual review of these policies and procedures conducted pursuant to subdivision ~~E-2~~ F of 21VAC5-80-170.

22. Form IA XRF, "Cross Reference Between ADV Part II, ADV Part 1A/1B, Schedule F, Contract and Brochure," Copies, with original signatures of the investment advisor's appropriate signatory and the investment advisor representative, of each initial Form U4 and each amendment to Disclosure Reporting Pages (DRPs U4) must be retained by the investment advisor (filing on behalf of the investment advisor representative) and must be made available for inspection upon regulatory request.

23. Where the advisor inadvertently held or obtained a client's securities or funds and returned them to the client within three business days or has forwarded third party checks within three business days of receipt, the advisor will be considered as not having custody but shall keep the following record to identify all securities or funds held or obtained relating to the inadvertent custody:

A ledger or other listing of all securities or funds held or obtained, including the following information:

a. Issuer;

b. Type of security and series;

c. Date of issue;

d. For debt instruments, the denomination, interest rate and maturity date;

e. Certificate number, including alphabetical prefix or suffix;

f. Name in which registered;

g. Date given to the advisor;

h. Date sent to client or sender;

i. Form of delivery to client or sender, or copy of the form of delivery to client or sender; and

j. Mail confirmation number, if applicable, or confirmation by client or sender of the fund's or security's return.

24. If an investment advisor obtains possession of securities that are acquired from the issuer in a transaction or chain of transactions not involving any public offering that comply with the exception from custody under subdivision C 2 of 21VAC5-80-146, the advisor shall keep the following records:

a. A record showing the issuer or current transfer agent's name address, phone number, and other applicable contract information pertaining to the party responsible for recording client interests in the securities; and

b. A copy of any legend, shareholder agreement, or other agreement showing that those securities that are transferable only with prior consent of the issuer or holders of the outstanding securities of the issuer.

B. 1. If an investment advisor subject to subsection A of this section has custody or possession of securities or funds of any client, the records required to be made and kept under subsection A of this section shall also include:

~~1. a.~~ A journal or other record showing all purchases, sales, receipts and deliveries of securities (including certificate numbers) for such accounts and all other debits and credits to the accounts.

~~2. b.~~ A separate ledger account for each client showing all purchases, sales, receipts and deliveries of securities, the date and price of each purchase and sale, and all debits and credits.

~~3. c.~~ Copies of confirmations of all transactions effected by or for the account of any client.

~~4. d.~~ A record for each security in which any client has a position, which record shall show the name of each client having any interest in each security, the amount or interest of each client, and the location of each security.

~~5. e.~~ A copy of any records required to be made and kept under ~~21VAC5-80-145~~ 21VAC5-80-146.

f. A copy of any and all documents executed by the client (including a limited power of attorney) under which the advisor is authorized or permitted to withdraw a client's funds or securities maintained with a custodian upon the advisor's instruction to the custodian.

g. A copy of each of the client's quarterly account statements as generated and delivered by the qualified custodian. If the advisor also generates a statement that is delivered to the client, the advisor shall also maintain copies of such statements along with the date such statements were sent to the clients.

h. If applicable to the advisor's situation, a copy of the special examination report verifying the completion of the examination by an independent certified public

accountant and describing the nature and extent of the examination.

i. A record of any finding by the independent certified public accountant of any material discrepancies found during the examination.

j. If applicable, evidence of the client's designation of an independent representative.

2. If an investment advisor has custody because it advises a pooled investment vehicle, as defined in 21VAC5-80-146 A in the definition of custody in clause 1 c, the advisor shall also keep the following records:

a. True, accurate, and current account statements;

b. Where the advisor complies with 21VAC5-80-146 C 4, the records required to be made and kept shall include:

(1) The date or dates of the audit;

(2) A copy of the audited financial statements; and

(3) Evidence of the mailing of the audited financial to all limited partners, members, or other beneficial owners within 120 days of the end of its fiscal year.

c. Where the advisor complies with 21VAC5-80-146 B 5, the records required to be made and kept shall include:

(1) A copy of the written agreement with the independent party reviewing all fees and expenses, indicating the responsibilities of the independent third party.

(2) Copies of all invoices and receipts showing approval by the independent party for payment through the qualified custodian.

D. Every investment advisor subject to subsection A of this section who renders any investment advisory or management service to any client shall, with respect to the portfolio being supervised or managed and to the extent that the information is reasonably available to or obtainable by the investment advisor, make and keep true, accurate and current:

1. Records showing separately for each client the securities purchased and sold, and the date, amount and price of each purchase and sale.

2. For each security in which any client has a current position, information from which the investment advisor can promptly furnish the name of each client and the current amount or interest of the client.

D. Any books or records required by this section may be maintained by the investment advisor in such manner that the identity of any client to whom the investment advisor renders investment advisory services is indicated by numerical or alphabetical code or some similar designation.

E. Every investment advisor subject to subsection A of this section shall preserve the following records in the manner prescribed:

1. All books and records required to be made under the provisions of subsection A through subdivision C 1, inclusive, of this section, except for books and records

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# Regulations

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required to be made under the provisions of subdivisions A 11 and A 16 of this section, shall be maintained in an easily accessible place for a period of not less than five years from the end of the fiscal year during which the last entry was made on record, the first two years of which shall be maintained in the principal office of the investment advisor.

2. Partnership articles and any amendments, articles of incorporation, charters, minute books, and stock certificate books of the investment advisor and of any predecessor, shall be maintained in the principal office of the investment advisor and preserved until at least three years after termination of the enterprise.

3. Books and records required to be made under the provisions of subdivisions A 11 and A 16 of this section shall be maintained in an easily accessible place for a period of not less than five years, the first two years of which shall be maintained in the principal office of the investment advisor, from the end of the fiscal year during which the investment advisor last published or otherwise disseminated, directly or indirectly, the notice, circular, advertisement, newspaper article, investment letter, bulletin, or other communication including by electronic media.

4. Books and records required to be made under the provisions of subdivisions A 17 through A 22, inclusive, of this section shall be maintained and preserved in an easily accessible place for a period of not less than five years, from the end of the fiscal year during which the last entry was made on such record, the first two years in the principal office of the investment advisor, or for the time period during which the investment advisor was registered or required to be registered in the state, if less.

5. Notwithstanding other record preservation requirements of this subsection, the following records or copies shall be required to be maintained at the business location of the investment advisor from which the customer or client is being provided or has been provided with investment advisory services: (i) records required to be preserved under subdivisions A 3, A 7 through A 10, A 14 and A 15, A 17 through A 19, subsections B and C, and (ii) the records or copies required under the provision of subdivisions A 11 and A 16 of this section which records or related records identify the name of the investment advisor representative providing investment advice from that business location, or which identify the business locations' physical address, mailing address, electronic mailing address, or telephone number. The records will be maintained for the period described in this subsection.

F. Every investment advisor shall establish and maintain a written disaster recovery plan that shall address at a minimum:

1. The identity of individuals that will conduct or wind down business on behalf of the investment advisor in the event of death or incapacity of key persons;

2. Means to provide notification to clients of the investment advisor and to those states in which the advisor is registered of the death or incapacity of key persons;

a. Notification shall be provided to the Division of Securities and Retail Franchising via ~~the~~ IARD/CRD system within 24 hours of the death or incapacity of key persons.

b. Notification shall be given to clients within five business days from the death or incapacity of key persons.

3. Means for clients' accounts to continue to be monitored until an orderly liquidation, distribution or transfer of the clients' portfolio to another advisor can be achieved or until an actual notice to the client of investment advisor death or incapacity and client control of their assets occurs;

4. Means for the credit demands of the investment advisor to be met; and

5. Data backups sufficient to allow rapid resumption of the investment advisor's activities.

G. An investment advisor subject to subsection A of this section, before ceasing to conduct or discontinuing business as an investment advisor, shall arrange for and be responsible for the preservation of the books and records required to be maintained and preserved under this section for the remainder of the period specified in this section, and shall notify the commission in writing of the exact address where the books and records will be maintained during such period.

H. 1. The records required to be maintained pursuant to this section may be immediately produced or reproduced by photograph on film or, as provided in subdivision 2 of this subsection, on magnetic disk, tape or other computer storage medium, and be maintained for the required time in that form. If records are preserved or reproduced by photographic film or computer storage medium, the investment advisor shall:

a. Arrange the records and index the films or computer storage medium so as to permit the immediate location of any particular record;

b. Be ready at all times to promptly provide any facsimile enlargement of film or computer printout or copy of the computer storage medium which the commission by its examiners or other representatives may request;

c. Store separately from the original one other copy of the film or computer storage medium for the time required;

d. With respect to records stored on computer storage medium, maintain procedures for maintenance of, and access to, records so as to reasonably safeguard records from loss, alteration, or destruction; and

e. With respect to records stored on photographic film, at all times have available, for the commission's examination of its records, facilities for immediate, easily readable projection of the film and for producing easily readable facsimile enlargements.

2. Pursuant to subdivision 1 of this subsection, an advisor may maintain and preserve on computer tape or disk or other computer storage medium records which, in the ordinary course of the advisor's business, are created by the advisor on electronic media or are received by the advisor solely on electronic media or by electronic transmission.

I. Any book or record made, kept, maintained, and preserved in compliance with SEC Rules 17a-3 (17 CFR 240.17a-3) and 17a-4 (17 CFR 240.17a-4) under the Securities Exchange Act of 1934, which is substantially the same as the book, or other record required to be made, kept, maintained, and preserved under this section shall be deemed to be made, kept, maintained, and preserved in compliance with this section.

J. For purposes of this section, "investment supervisory services" means the giving of continuous advice as to the investment of funds on the basis of the individual needs of each client; and "discretionary power" shall not include discretion as to the price at which or the time when a transaction is or is to be effected if, before the order is given by the investment advisor, the client has directed or approved the purchase or sale of a definite amount of the particular security.

K. For purposes of this section, "principal place of business" and "principal office" mean the executive office of the investment advisor from which the officers, partners, or managers of the investment advisor direct, control, and coordinate the activities of the investment advisor.

L. Every investment advisor registered or required to be registered in this Commonwealth and has its principal place of business in a state other than the Commonwealth shall be exempt from the requirements of this section to the extent provided by the National Securities Markets Improvement Act of 1996 (Pub. L. No. 104-290), provided the investment advisor is licensed in such state and is in compliance with such state's recordkeeping requirements.

**21VAC5-80-170. Supervision of investment advisor representatives.**

A. An investment advisor shall be responsible for the acts, practices, and conduct of its investment advisor representatives in connection with advisory services until such time as the investment advisor representatives have been properly terminated as provided by 21VAC5-80-110.

B. Every investment advisor shall exercise diligent supervision over the advisory activities of all of its investment advisor representatives.

C. Every investment advisor representative employed by an investment advisor shall be subject to the supervision of a supervisor designated by such investment advisor. The

supervisor may be the investment advisor in the case of a sole proprietor, or a partner, officer, office manager or any qualified investment advisor representative in the case of entities other than sole proprietorships. All designated supervisors shall exercise reasonable supervision over the advisory activities of all investment advisor representatives under their responsibility.

D. As part of its responsibility under this section, every investment advisor, except entities employing no more than one investment advisor representative, shall establish, maintain and enforce written procedures, a copy of which shall be kept in each business office, which shall set forth the procedures adopted by the investment advisor to comply with the Act and associated regulations, which shall include but not be limited to the following duties imposed by this section; provided that an investment advisor having its principal place of business outside this Commonwealth and registered or licensed, and in compliance with the applicable books and records requirements, in the state where its principal place of business is located, shall only be required to make, keep current, maintain and preserve such of the following required books, ledgers and records as are not in addition to those required under the laws of the state in which it maintains its principal place of business:

1. The review and written approval by the designated supervisor of the opening of each new client account;
2. The frequent examination of all client accounts to detect and prevent irregularities or abuses;
3. The prompt review and written approval by a designated supervisor of all advisory transactions by investment advisor representatives and of all correspondence pertaining to the solicitation or execution of all advisory transactions by investment advisor representatives;
4. The prompt review and written approval of the handling of all client complaints.

E. Every investment advisor who has designated more than one supervisor pursuant to subsection C of this section shall designate from among its partners, officers, or other qualified investment advisor representatives, a person or group of persons, independent from the designated business supervisor or supervisors who shall: ~~1. Supervise~~ supervise and periodically review the activities of the supervisors designated pursuant to subsection C of this section; ~~and 2. No less often than annually, conduct a physical inspection of each business office under his supervision to ensure that the written procedures and compliance requirements are being enforced.~~ All supervisors designated pursuant to this subsection E shall exercise reasonable supervision over the supervisors under their responsibility to ~~insure~~ ensure compliance with this subsection.

F. Every investment advisor who has more than one business office where its investment advisor representatives offer investment advisory related services shall no less often than annually, conduct an independent physical inspection of

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# Regulations

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each business office under his supervision to ensure (i) the investment advisor representative at the respective business office has not violated any statutory provision of the Act or associated regulations promulgated by the commission and (ii) the written procedures and compliance requirements are being enforced.

## **21VAC5-80-180. Requirements for surety bonds and financial reporting.**

A. Investment advisors required to provide a balance sheet pursuant to Part ~~II~~ 2A, Item ~~14~~ 18 of Form ADV must demonstrate a net worth in excess of \$25,000. In the case of an investment advisor that is registered in the state in which it maintains its principal place of business, its balance sheet must demonstrate that it is in compliance with the state's net worth or net capital requirements (as the case may be).

B. Investment advisors who maintain their principal place of business in the Commonwealth of Virginia and are subject to subsection A of this section, whose net worth drops below \$25,001, must notify the Division of Securities and Retail Franchising within 24 hours of initial awareness of the discrepancy and immediately take action to establish a net worth in excess of \$25,000 or obtain a surety bond in the penalty amount of \$25,000. The surety bond form must be utilized. Additionally, within 24 hours after transmitting such notice, the investment advisor shall file a report with the Division of Securities and Retail Franchising of its financial condition, including the following:

1. A trial balance of all ledger accounts.
2. A computation of net worth.
3. A statement of all client funds or securities which are not segregated.
4. A computation of the aggregate amount of client ledger debit balances.
5. A statement as to the number of client accounts.

C. An investment advisor registered in the state in which it maintains its principal place of business and subject to subsection A of this section whose net worth or net capital (as the case may be) drops below the state's requirement, must notify the Division of Securities and Retail Franchising within 24 hours of initial awareness of the discrepancy and immediately take action to establish a net worth or net capital that is in compliance with the state's requirement. Additionally, within 24 hours after transmitting such notice, the investment advisor shall file a report with the Division of Securities and Retail Franchising of its financial condition, including the following:

1. A trial balance of all ledger accounts.
2. A computation of net worth or net capital.
3. A statement of all client funds or securities which are not segregated.
4. A computation of the aggregate amount of client ledger debit balances.

5. A statement as to the number of client accounts.

## **21VAC5-80-190. Disclosure requirements.**

A. For purposes of compliance with § 13.1-505.1 of the Act, a copy of Part ~~II~~ 2 of Form ADV must be given to clients of investment advisors, ~~or a brochure containing such information may be utilized.~~

B. The investment advisor or its registered representatives shall deliver the disclosure information required by this section to an advisory client or prospective advisory client:

1. Not less than 48 hours prior to entering into any investment advisory contract with such client or prospective client, or
2. At the time of entering into any such contract, if the advisory client has a right to terminate the contract without penalty within five calendar days after entering into the contract.

C. The investment advisor, or its registered representatives, shall offer to deliver the disclosure information required by this section to an advisory client or prospective advisory client annually, within 90 days of any investment advisor's fiscal year end.

D. A copy of Part ~~II~~ 2 of Form ADV ~~or the brochure~~ to be given to clients must be filed by investment advisors with the commission at its Division of Securities and Retail Franchising not later than the time of its use.

~~E. If an investment advisor renders substantially different types of investment advisory services to different advisory clients, any information required by Part II of Form ADV may be omitted from the statement furnished to an advisory client or prospective advisory client if such information is applicable only to a type of investment advisory service or fee which is not rendered or charged, or proposed to be rendered or charged to that client or prospective client.~~

~~F. E.~~ An investment advisor and its representative who receives compensation for assisting a client in the selection of another investment advisor may only assist that client in the selection of another investment advisor pursuant to a written agreement between the assisting investment advisor and the other investment advisor. The written agreement must describe the assisting activities and compensation, contain the assisting investment advisor's undertaking to perform consistent with the other investment advisor's instructions, and require that the assisting investment advisor representative provide the prospective clients with written disclosure documents of the assisting investment advisor and the other investment advisor. The disclosure document of an investment advisor who assists clients in the selection of another investment advisor shall always contain the following information in addition to other information required by subsection A of ~~of~~ this section:

1. The name of the assisting investment advisor representative;
2. The name of the other investment advisor;

3. The nature of the relationship, including any affiliation between the assisting investment advisor representative and the other investment advisor;
4. A statement that the assisting investment advisor representative will be compensated for his services by the other investment advisor;
5. The terms of such compensation arrangement, including a description of the compensation paid to the assisting investment advisor representative;
6. Compensation differentials charged to clients above the normal other investment advisor's fee, as a result of the cost of obtaining clients by compensating the assisting investment advisor representative.

**21VAC5-80-200. Dishonest or unethical practices.**

A. An investment advisor or federal covered advisor is a fiduciary and has a duty to act primarily for the benefit of his clients. While the extent and nature of this duty varies according to the nature of the relationship between an investment advisor or federal covered advisor and his clients and the circumstances of each case, an investment advisor or federal covered advisor who is registered or required to be registered shall not engage in unethical practices, including the following:

1. Recommending to a client to whom investment supervisory, management or consulting services are provided the purchase, sale or exchange of any security without reasonable grounds to believe that the recommendation is suitable for the client on the basis of information furnished by the client after reasonable inquiry concerning the client's investment objectives, financial situation, risk tolerance and needs, and any other information known or acquired by the investment advisor or federal covered advisor after reasonable examination of the client's financial records.
2. Placing an order to purchase or sell a security for the account of a client without written authority to do so.
3. Placing an order to purchase or sell a security for the account of a client upon instruction of a third party without first having obtained a written third-party authorization from the client.
4. Exercising any discretionary power in placing an order for the purchase or sale of securities for a client without obtaining written discretionary authority from the client within 10 business days after the date of the first transaction placed pursuant to oral discretionary authority, unless the discretionary power relates solely to the price at which, or the time when, an order involving a definite amount of a specified security shall be executed, or both.
5. Inducing trading in a client's account that is excessive in size or frequency in view of the financial resources, investment objectives and character of the account.
6. Borrowing money or securities from a client unless the client is a broker-dealer, an affiliate of the investment

- advisor or federal covered advisor, or a financial institution engaged in the business of loaning funds or securities.
7. Loaning money to a client unless the investment advisor or federal covered advisor is a financial institution engaged in the business of loaning funds or the client is an affiliate of the investment advisor or federal covered advisor.
8. Misrepresenting to any advisory client, or prospective advisory client, the qualifications of the investment advisor or federal covered advisor, or misrepresenting the nature of the advisory services being offered or fees to be charged for the services, or omission to state a material fact necessary to make the statements made regarding qualifications services or fees, in light of the circumstances under which they are made, not misleading.
9. Providing a report or recommendation to any advisory client prepared by someone other than the investment advisor or federal covered advisor without disclosing that fact. This prohibition does not apply to a situation where the advisor uses published research reports or statistical analyses to render advice or where an advisor orders such a report in the normal course of providing service.
10. Charging a client an unreasonable advisory fee in light of the fees charged by other investment advisors or federal covered advisors providing essentially the same services.
11. Failing to disclose to clients in writing before any advice is rendered any material conflict of interest relating to the investment advisor or federal covered advisor or any of his employees which could reasonably be expected to impair the rendering of unbiased and objective advice including:
  - a. Compensation arrangements connected with advisory services to clients which are in addition to compensation from such clients for such services; or
  - b. Charging a client an advisory fee for rendering advice when a commission for executing securities transactions pursuant to such advice will be received by the advisor or his employees.
12. Guaranteeing a client that a specific result will be achieved as a result of the advice which will be rendered.
13. Directly or indirectly using any advertisement that does any one of the following:
  - a. Refers to any testimonial of any kind concerning the investment advisor or investment advisor representative or concerning any advice, analysis, report, or other service rendered by the investment advisor or investment advisor representative;
  - b. Refers to past specific recommendations of the investment advisor or investment advisor representative that were or would have been profitable to any person; except that an investment advisor or investment advisor representative may furnish or offer to furnish a list of all recommendations made by the investment advisor or investment advisor representative within the immediately



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# Regulations

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preceding period of not less than one year if the advertisement or list also includes both of the following:

(1) The name of each security recommended, the date and nature of each recommendation, the market price at that time, the price at which the recommendation was to be acted upon, and the most recently available market price of each security; and

(2) A legend on the first page in prominent print or type that states that the reader should not assume that recommendations made in the future will be profitable or will equal the performance of the securities in the list;

c. Represents that any graph, chart, formula, or other device being offered can be used to determine which securities to buy or sell, or when to buy or sell them; or which represents, directly or indirectly, that any graph, chart, formula, or other device being offered will assist any person in making that person's own decisions as to which securities to buy or sell, or when to buy or sell them, without prominently disclosing in the advertisement the limitations thereof and the risks associated to its use;

d. Represents that any report, analysis, or other service will be furnished for free or without charge, unless the report, analysis, or other service actually is or will be furnished entirely free and without any direct or indirect condition or obligation;

e. Represents that the commission has approved any advertisement; or

f. Contains any untrue statement of a material fact, or that is otherwise false or misleading.

For the purposes of this section, the term "advertisement" includes any notice, circular, letter, or other written communication addressed to more than one person, or any notice or other announcement in any electronic or paper publication, by radio or television, or by any medium, that offers any one of the following:

(i) Any analysis, report, or publication concerning securities;

(ii) Any analysis, report, or publication that is to be used in making any determination as to when to buy or sell any security or which security to buy or sell;

(iii) Any graph, chart, formula, or other device to be used in making any determination as to when to buy or sell any security, or which security to buy or sell; or

(iv) Any other investment advisory service with regard to securities.

14. Disclosing the identity, affairs, or investments of any client to any third party unless required by law or an order of a court or a regulatory agency to do so, or unless consented to by the client.

15. Taking any action, directly or indirectly, with respect to those securities or funds in which any client has any

beneficial interest, where the investment advisor has custody or possession of such securities or funds, when the investment advisor's action is subject to and does not comply with the safekeeping requirements of ~~21VAC5-80-145~~ 21VAC5-80-146.

16. Entering into, extending or renewing any investment advisory contract unless the contract is in writing and discloses, in substance, the services to be provided, the term of the contract, the advisory fee, the formula for computing the fee, the amount of prepaid fee to be returned in the event of contract termination or nonperformance, whether the contract grants discretionary power to the investment advisor or federal covered advisor and that no assignment of such contract shall be made by the investment advisor or federal covered advisor without the consent of the other party to the contract.

17. Failing to clearly and separately disclose to its customer, prior to any security transaction, providing investment advice for compensation or any materially related transaction that the customer's funds or securities will be in the custody of an investment advisor or contracted custodian in a manner that does not provide Securities Investor Protection Corporation protection, or equivalent third-party coverage over the customer's assets.

18. Using a certification or professional designation in connection with the provision of advice as to the value of or the advisability of investing in, purchasing, or selling securities, either directly or indirectly or through publications or writings, or by issuing or promulgating analyses or reports relating to securities that indicates or implies that the user has special certification or training in advising or servicing senior citizens or retirees in such a way as to mislead any person.

a. The use of such certification or professional designation includes, but is not limited to, the following:

(1) Use of a certification or designation by a person who has not actually earned or is otherwise ineligible to use such certification or designation;

(2) Use of a nonexistent or self-conferred certification or professional designation;

(3) Use of a certification or professional designation that indicates or implies a level of occupational qualifications obtained through education, training, or experience that the person using the certification or professional designation does not have; or

(4) Use of a certification or professional designation that was obtained from a designating or certifying organization that:

(a) Is primarily engaged in the business of instruction in sales and/or marketing;

(b) Does not have reasonable standards or procedures for assuring the competency of its designees or certificants;

(c) Does not have reasonable standards or procedures for monitoring and disciplining its designees or certificants for improper or unethical conduct; or

(d) Does not have reasonable continuing education requirements for its designees or certificants in order to maintain the designation or certificate.

b. There is a rebuttable presumption that a designating or certifying organization is not disqualified solely for purposes of subdivision 18 a (4) of this subsection, when the organization has been accredited by:

(1) The American National Standards Institute;

(2) The Institute for Credentialing Excellence (formerly the National Commission for Certifying Agencies); or

(3) An organization that is on the United States Department of Education's list entitled "Accrediting Agencies Recognized for Title IV Purposes" and the designation or credential issued therefrom does not primarily apply to sales and/or marketing.

c. In determining whether a combination of words (or an acronym standing for a combination of words) constitutes a certification or professional designation indicating or implying that a person has special certification or training in advising or servicing senior citizens or retirees, factors to be considered shall include:

(1) Use of one or more words such as "senior," "retirement," "elder," or like words, combined with one or more words such as "certified," "chartered," "adviser," "specialist," "consultant," "planner," or like words, in the name of the certification or professional designation; and

(2) The manner in which those words are combined.

d. For purposes of this section, a certification or professional designation does not include a job title within an organization that is licensed or registered by a state or federal financial services regulatory agency, when that job title:

(1) Indicates seniority within the organization; or

(2) Specifies an individual's area of specialization within the organization.

For purposes of this subdivision d, "financial services regulatory agency" includes, but is not limited to, an agency that regulates broker-dealers, investment advisers, or investment companies as defined under § 3 (a)(1) of the Investment Company Act of 1940 (15 USC § 80a-3(a)(1)).

e. Nothing in this regulation shall limit the commission's authority to enforce existing provisions of the law.

B. An investment advisor representative is a fiduciary and has a duty to act primarily for the benefit of his clients. While the extent and nature of this duty varies according to the nature of the relationship between an investment advisor representative and his clients and the circumstances of each case, an investment advisor representative who is registered

or required to be registered shall not engage in unethical practices, including the following:

1. Recommending to a client to whom investment supervisory, management or consulting services are provided the purchase, sale or exchange of any security without reasonable grounds to believe that the recommendation is suitable for the client on the basis of information furnished by the client after reasonable inquiry concerning the client's investment objectives, financial situation and needs, and any other information known or acquired by the investment advisor representative after reasonable examination of the client's financial records.

2. Placing an order to purchase or sell a security for the account of a client without written authority to do so.

3. Placing an order to purchase or sell a security for the account of a client upon instruction of a third party without first having obtained a written third-party authorization from the client.

4. Exercising any discretionary power in placing an order for the purchase or sale of securities for a client without obtaining written discretionary authority from the client within 10 business days after the date of the first transaction placed pursuant to oral discretionary authority, unless the discretionary power relates solely to the price at which, or the time when, an order involving a definite amount of a specified security shall be executed, or both.

5. Inducing trading in a client's account that is excessive in size or frequency in view of the financial resources, investment objectives and character of the account.

6. Borrowing money or securities from a client unless the client is a broker-dealer, an affiliate of the investment advisor representative, or a financial institution engaged in the business of loaning funds or securities.

7. Loaning money to a client unless the investment advisor representative is engaged in the business of loaning funds or the client is an affiliate of the investment advisor representative.

8. Misrepresenting to any advisory client, or prospective advisory client, the qualifications of the investment advisor representative, or misrepresenting the nature of the advisory services being offered or fees to be charged for the services, or omission to state a material fact necessary to make the statements made regarding qualifications, services or fees, in light of the circumstances under which they are made, not misleading.

9. Providing a report or recommendation to any advisory client prepared by someone other than the investment advisor or federal covered advisor who the investment advisor representative is employed by or associated with without disclosing that fact. This prohibition does not apply to a situation where the investment advisor or federal covered advisor uses published research reports or statistical analyses to render advice or where an investment

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# Regulations

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advisor or federal covered advisor orders such a report in the normal course of providing service.

10. Charging a client an unreasonable advisory fee in light of the fees charged by other investment advisor representatives providing essentially the same services.

11. Failing to disclose to clients in writing before any advice is rendered any material conflict of interest relating to the investment advisor representative which could reasonably be expected to impair the rendering of unbiased and objective advice including:

a. Compensation arrangements connected with advisory services to clients which are in addition to compensation from such clients for such services; or

b. Charging a client an advisory fee for rendering advice when a commission for executing securities transactions pursuant to such advice will be received by the investment advisor representative.

12. Guaranteeing a client that a specific result will be achieved as a result of the advice which will be rendered.

13. Directly or indirectly using any advertisement that does any one of the following:

a. Refers to any testimonial of any kind concerning the investment advisor or investment advisor representative or concerning any advice, analysis, report, or other service rendered by the investment advisor or investment advisor representative;

b. Refers to past specific recommendations of the investment advisor or investment advisor representative that were or would have been profitable to any person; except that an investment advisor or investment advisor representative may furnish or offer to furnish a list of all recommendations made by the investment advisor or investment advisor representative within the immediately preceding period of not less than one year if the advertisement or list also includes both of the following:

(1) The name of each security recommended, the date and nature of each recommendation, the market price at that time, the price at which the recommendation was to be acted upon, and the most recently available market price of each security; and

(2) A legend on the first page in prominent print or type that states that the reader should not assume that recommendations made in the future will be profitable or will equal the performance of the securities in the list;

c. Represents that any graph, chart, formula, or other device being offered can be used to determine which securities to buy or sell, or when to buy or sell them; or which represents, directly or indirectly, that any graph, chart, formula, or other device being offered will assist any person in making that person's own decisions as to which securities to buy or sell, or when to buy or sell them, without prominently disclosing in the

advertisement the limitations thereof and the risks associated with its use;

d. Represents that any report, analysis, or other service will be furnished for free or without charge, unless the report, analysis, or other service actually is or will be furnished entirely free and without any direct or indirect condition or obligation;

e. Represents that the commission has approved any advertisement; or

f. Contains any untrue statement of a material fact, or that is otherwise false or misleading.

For the purposes of this section, the term "advertisement" includes any notice, circular, letter, or other written communication addressed to more than one person, or any notice or other announcement in any electronic or paper publication, by radio or television, or by any medium, that offers any one of the following:

(i) Any analysis, report, or publication concerning securities;

(ii) Any analysis, report, or publication that is to be used in making any determination as to when to buy or sell any security or which security to buy or sell;

(iii) Any graph, chart, formula, or other device to be used in making any determination as to when to buy or sell any security, or which security to buy or sell; or

(iv) Any other investment advisory service with regard to securities.

14. Disclosing the identity, affairs, or investments of any client to any third party unless required by law or an order of a court or a regulatory agency to do so, or unless consented to by the client.

15. Taking any action, directly or indirectly, with respect to those securities or funds in which any client has any beneficial interest, where the investment advisor representative other than a person associated with a federal covered advisor has custody or possession of such securities or funds, when the investment advisor representative's action is subject to and does not comply with the safekeeping requirements of ~~21VAC5-80-145~~ 21VAC5-80-146.

16. Entering into, extending or renewing any investment advisory or federal covered advisory contract unless such contract is in writing and discloses, in substance, the services to be provided, the term of the contract, the advisory fee, the formula for computing the fee, the amount of prepaid fee to be returned in the event of contract termination or nonperformance, whether the contract grants discretionary power to the investment advisor representative and that no assignment of such contract shall be made by the investment advisor representative without the consent of the other party to the contract.

17. Failing to clearly and separately disclose to its customer, prior to any security transaction, providing investment advice for compensation or any materially related transaction that the customer's funds or securities will be in the custody of an investment advisor or contracted custodian in a manner that does not provide Securities Investor Protection Corporation protection, or equivalent third-party coverage over the customer's assets.

18. Using a certification or professional designation in connection with the provision of advice as to the value of or the advisability of investing in, purchasing, or selling securities, either directly or indirectly or through publications or writings, or by issuing or promulgating analyses or reports relating to securities that indicates or implies that the user has special certification or training in advising or servicing senior citizens or retirees in such a way as to mislead any person.

a. The use of such certification or professional designation includes, but is not limited to, the following:

- (1) Use of a certification or designation by a person who has not actually earned or is otherwise ineligible to use such certification or designation;
- (2) Use of a nonexistent or self-conferred certification or professional designation;
- (3) Use of a certification or professional designation that indicates or implies a level of occupational qualifications obtained through education, training, or experience that the person using the certification or professional designation does not have; or
- (4) Use of a certification or professional designation that was obtained from a designating or certifying organization that:
  - (a) Is primarily engaged in the business of instruction in sales and or marketing;
  - (b) Does not have reasonable standards or procedures for assuring the competency of its designees or certificants;
  - (c) Does not have reasonable standards or procedures for monitoring and disciplining its designees or certificants for improper or unethical conduct; or
  - (d) Does not have reasonable continuing education requirements for its designees or certificants in order to maintain the designation or certificate.

b. There is a rebuttable presumption that a designating or certifying organization is not disqualified solely for purposes of subdivision 18 a (4) of this subsection, when the organization has been accredited by:

- (1) The American National Standards Institute;
- (2) The Institute for Credentialing Excellence (formerly the National Commission for Certifying Agencies); or
- (3) An organization that is on the United States Department of Education's list entitled "Accrediting Agencies Recognized for Title IV Purposes" and the

designation or credential issued therefrom does not primarily apply to sales and/or marketing.

c. In determining whether a combination of words (or an acronym standing for a combination of words) constitutes a certification or professional designation indicating or implying that a person has special certification or training in advising or servicing senior citizens or retirees, factors to be considered shall include:

- (1) Use of one or more words such as "senior," "retirement," "elder," or like words, combined with one or more words such as "certified," "chartered," "adviser," "specialist," "consultant," "planner," or like words, in the name of the certification or professional designation; and
- (2) The manner in which those words are combined.

d. For purposes of this section, a certification or professional designation does not include a job title within an organization that is licensed or registered by a state or federal financial services regulatory agency, when that job title:

- (1) Indicates seniority within the organization; or
- (2) Specifies an individual's area of specialization within the organization.

For purposes of this subdivision d, "financial services regulatory agency" includes, but is not limited to, an agency that regulates broker-dealers, investment advisers, or investment companies as defined under § 3(a)(1) of the Investment Company Act of 1940 (15 USC § 80a-3(a)(1)).

e. Nothing in this regulation shall limit the commission's authority to enforce existing provisions of law.

C. The conduct set forth in subsections A and B of this section is not all inclusive. Engaging in other conduct such as nondisclosure, incomplete disclosure, or deceptive practices may be deemed an unethical business practice except to the extent permitted by the National Securities Markets Improvement Act of 1996 (Pub. L. No. 104-290 (96)).

D. The provisions of this section shall apply to federal covered advisors to the extent that fraud or deceit is involved, or as otherwise permitted by the National Securities Markets Improvement Act of 1996 (Pub. L. No. 104-290 (96)).

**21VAC5-80-215. Exemption for certain private advisors.**

A. For purposes of this section, the following definitions shall apply:

1. "Value of primary residence" means the fair market value of a person's primary residence, subtracted by the amount of debt secured by the property up to its fair market value.
2. "Private fund advisor" means an investment advisor who provides advice solely to one or more qualifying private funds.

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# Regulations

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3. "Qualifying private fund" means a private fund that meets the definition of a qualifying private fund in SEC Rule 203(m)-1, 17 CFR 275.203(m)-1.

4. "3(c)(1) fund" means a qualifying private fund that is eligible for the exclusion from the definition of an investment company under § 3(c)(1) of the Investment Company Act of 1940, 15 USC § 80a-3(c)(1).

5. "Venture capital fund" means a private fund that meets the definition of a venture capital fund in SEC Rule 203(l)-1, 17 CFR 275.203(l)-1.

B. Subject to the additional requirements of subsection C of this section, a private fund advisor shall be exempt from the registration requirements of § 13.1-504 of the Act if the private fund advisor satisfies each of the following conditions:

1. Neither the private fund advisor nor any of its advisory affiliates are subject to a disqualification as described in Rule 262 of SEC Regulation A, 17 CFR 230.262;

2. The private fund advisor files with the commission each report and amendment thereto that an exempt reporting advisor is required to file with the Securities and Exchange Commission pursuant to SEC Rule 204-4, 17 CFR 275.204-4; and

3. The private fund advisor pays a notice fee in the amount of \$250.

C. In order to qualify for the exemption described in subsection B of this section, a private fund advisor who advises at least one (3)(c)(1) fund that is not a venture capital fund shall, in addition to satisfying each of the conditions specified in subsection B of this section, comply with the following requirements:

1. The private fund advisor shall advise only those 3(c)(1) funds (other than venture capital funds) whose outstanding securities (other than short-term paper) are beneficially owned entirely by persons who, after deducting the value of the primary residence from the person's net worth, would each meet the definition of a qualified client in SEC Rule 205-3, 17 CFR 275.205-3, at the time the securities are purchased from the issuer;

2. At the time of purchase, the private fund advisor shall disclose the following in writing to each beneficial owner of a 3(c)(1) fund that is not a venture capital fund:

a. All services, if any, to be provided to individual beneficial owners;

b. All duties, if any, the investment advisor owes to the beneficial owners; and

c. Any other material information affecting the rights or responsibilities of the beneficial owners; and

3. The private fund advisor shall obtain on an annual basis audited financial statements of each 3(c)(1) fund that is not a venture capital fund, and shall deliver a copy of such

audited financial statements to each beneficial owner of the fund.

D. If a private fund advisor is registered with the Securities and Exchange Commission, the advisor shall not be eligible for this exemption and shall comply with the notice filing requirements applicable to federal covered investment advisors in § 13.1-504 of the Act.

E. A person is exempt from the registration requirements of § 13.1-504 of the Act if he is employed by or associated with an investment advisor that is exempt from registration in this Commonwealth pursuant to this section and does not otherwise act as an investment advisor representative.

F. The report filings described in subdivision B 2 of this section shall be made electronically ~~through the~~ on IARD ~~system~~. A report shall be deemed filed when the report and the notice fee required by subdivision B 3 of this section are filed and accepted by ~~the IARD system~~ on the commission's behalf.

G. An investment advisor who becomes ineligible for the exemption provided by this section must comply with all applicable laws and regulations requiring registration or notice filing within 90 days from the date the investment advisor's eligibility for this exemption ceases.

H. An investment advisor to a 3(c)(1) fund (other than a venture capital fund) that has one or more beneficial owners who are not qualified clients as described in subdivision C 1 of this section is eligible for the exemption contained in subsection B of this section if the following conditions are satisfied:

1. The subject fund existed prior to May 7, 2012;

2. As of May 7, 2012, the subject fund ceases to accept beneficial owners who are not qualified clients, as described in subdivision C 1 of this section;

3. The investment advisor discloses in writing the information described in subdivision C 2 of this section to all beneficial owners of the fund; and

4. As of May 7, 2012, the investment advisor delivers audited financial statements as required by subdivision C 3 of this section.

## DOCUMENTS INCORPORATED BY REFERENCE (21VAC5-80)

Rule 946-210-50, Accounting Standards Codification, Financial Accounting Standards Board, Norwalk, Connecticut (December 31, 2008).

## **21VAC5-100-10. Rule governing disclosure Disclosure of confidential information.**

A. This section governs the disclosure by the commission of information or documents obtained or prepared by any member, subordinate or employee of the commission in the course of any examination or investigation conducted pursuant to the provisions of the Securities Act (§ 13.1-501 et seq. of the Code of Virginia). It is designed to implement the

provisions of §§ 13.1-518 and 13.1-567 that permit disclosure of information to governmental and quasi-governmental entities approved by rule of the commission.

B. The Director of the Division of Securities and Retail Franchising or ~~his~~ the director's designee is hereby authorized to disclose information to the entities enumerated in subsections D, E, and F of this section. Disclosure shall be made only for the purpose of aiding in the detection or prevention of possible violations of law or to further administrative, legislative or judicial action resulting from possible violations of law. As a condition precedent to disclosure a writing shall be obtained from the receiving entity undertaking that it will exercise reasonable measures to preserve the confidential nature of the information.

C. Disclosure may be made only under the following circumstances:

1. In response to an entity's request for information relating to a specific subject or person.
2. By disseminating to an entity information which may indicate a possible violation of law within the administrative, regulatory or enforcement responsibility of that entity.
3. To participate in a centralized program or system designed to collect and maintain information pertaining to possible violations of securities, investment advisory, retail franchising or related laws.
4. To the extent necessary for participation in coordinated examinations or investigations.

D. The following are approved governmental entities (including any agencies, bureaus, commissions, divisions or successors thereof) of the United States:

1. Board of Governors of the Federal Reserve System or any Federal Reserve Bank.
2. Commodity Futures Trading Commission.
3. Congress of the United States, including either House, or any committee or subcommittee thereof.
4. Department of Defense.
5. Department of Housing ~~&~~ and Urban Development.
6. Department of Justice.
7. Department of Treasury.
8. Federal Deposit Insurance Corporation.
9. Office of Thrift Supervision.
10. Federal Trade Commission.
11. Postal Service.
12. Securities ~~&~~ and Exchange Commission.
13. Comptroller of the Currency.
14. Federal Bureau of Investigation.
15. Any other federal agency or instrumentality which demonstrates a need for access to confidential information.

16. Virginia General Assembly, including the House or the Senate, or any committee or subcommittee thereof.

E. The following are approved nonfederal governmental entities:

1. The securities or retail franchising regulatory entity of any state, territory or possession of the United States, the District of Columbia, and the Commonwealth of Puerto Rico, state legislative bodies and state and local law-enforcement entities involved in the detection, investigation or prosecution of violations of law.
2. The securities or retail franchising regulatory entity of any foreign country, whether such entity is on a national, provincial, regional, state or local level, and law-enforcement entities within such countries.

F. The following are approved quasi-governmental entities:

- ~~1. American Stock Exchange.~~
- ~~2. Chicago Board Options Exchange.~~
- ~~3. Midwest Stock Exchange.~~
4. 1. Municipal Securities Rulemaking Board.
5. 2. National Association of Attorneys General.
- ~~6. National Association of Securities Dealers, Inc.~~
- ~~7. New York Stock Exchange.~~
8. 3. ~~North American Securities Administrators Association, Inc.~~ NASAA.
- ~~9. Pacific Stock Exchange.~~
- ~~10. Philadelphia Stock Exchange.~~
11. 4. Securities Investor Protection Corporation.
12. 5. National White Collar Crime Center.
13. ~~6. National Association of Securities Dealers Regulation, Inc.~~ FINRA.
14. 7. Any other quasi-governmental entity ~~which~~ that demonstrates a need for access to confidential information.

VA.R. Doc. No. R13-3073; Filed December 28, 2012, 6:28 p.m.

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# GENERAL NOTICES/ERRATA

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## STATE AIR POLLUTION CONTROL BOARD

### State Implementation Plan Revision - 1997 Fine Particulate Matter National Ambient Air Quality Standards

Purpose of notice: The Department of Environmental Quality (DEQ) is seeking comments on the overall plan and on the issue of whether the plan enables the Northern Virginia PM<sub>2.5</sub> Nonattainment Area to maintain compliance with the 1997 PM<sub>2.5</sub>NAAQS until at least 2025.

Public comment period: January 28, 2013, to February 26, 2013.

Public hearing: A public hearing will be conducted at the Fairfax County Government Center, in conference room 2/3, at 7 p.m. on February 25, 2013. The Fairfax County Government Center is located at 12000 Government Center Parkway, Fairfax, VA 22035. A map and directions may be found at <http://www.fairfaxcounty.gov/maps/county/government-center.htm>.

Description of proposal: The proposal consists of the following:

1. Air quality maintenance plan in support of a concurrent request to redesignate the Northern Virginia PM<sub>2.5</sub> Nonattainment Area (Counties of Arlington, Fairfax, Loudoun, and Prince William; Cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park) to attainment: The purpose of the plan is to ensure that emissions of PM<sub>2.5</sub>, sulfur dioxide (SO<sub>2</sub>), and nitrogen oxides (NO<sub>x</sub>) do not exceed the 2007 attainment year levels through 2025, enabling the area to continue meeting the 1997 NAAQS for PM<sub>2.5</sub>. The plan contains control measures that are currently in place and will be continued in order to maintain the PM<sub>2.5</sub>, SO<sub>2</sub>, and NO<sub>x</sub> emissions at or below the 2007 levels. These measures include, but are not limited to, federal control programs for on-road and non-road engines as well as limitations on local power plants. The plan also contains a program of contingency measures to be implemented if the air quality monitoring stations in the area record a violation of the 1997 PM<sub>2.5</sub> NAAQS or if emissions in the area increase above the 2007 levels, as well as information concerning emissions estimates, growth assumptions, emission factors, and reduction assumptions.

2. Motor vehicle emissions budgets for the years 2007, 2017, and 2025: The purpose of the motor vehicle emissions budgets is to ensure that transportation emissions conform to the requirements of the proposed plan for maintaining compliance with the 1997 PM<sub>2.5</sub> NAAQS (transportation conformity).

The proposed PM<sub>2.5</sub> redesignation request and maintenance plan were prepared by the Metropolitan Washington Air

Quality Committee (MWAQC), which consists of elected officials from the affected localities and representatives of state transportation and air quality planning agencies.

The maintenance plan, which contains the motor vehicle emissions budgets, will be submitted as a SIP revision in conjunction with a request to Environmental Protection Agency from the Commonwealth to redesignate the Northern Virginia PM<sub>2.5</sub> Nonattainment Area as attainment/maintenance. DEQ is accepting comments on both the redesignation request and maintenance plan, but the redesignation request will not be submitted as part of the SIP revision.

Federal information: This notice is being given to satisfy the public participation requirements of federal regulations (40 CFR 51.102). The proposed maintenance plan and supporting technical documents will be submitted as a revision to the Commonwealth of Virginia SIP under § 110(a) of the federal Clean Air Act in accordance with 40 CFR 51.104.

How to comment: DEQ accepts written comments by email, fax, and postal mail. In order to be considered, comments must include the full name, address, and telephone number of the person commenting and be received by DEQ no later than the last day of the comment period. Both oral and written comments are accepted at the public hearing. DEQ prefers that comments be provided in writing, along with any supporting documents or exhibits. Comments on the redesignation request and maintenance plan must be submitted to Doris A. McLeod at the address below.

To review the proposal: The proposal and any supporting documents are available on the DEQ Air Public Notices for Plans website at <http://www.deq.state.va.us/Programs/Air/PublicNotices/airplansandprograms.aspx>. The documents may also be obtained by contacting the DEQ representative named above. The public may review the documents between 8:30 a.m. and 4:30 p.m. of each business day until the close of the public comment period at the following DEQ locations:

- 1) Main Street Office, 629 East Main Street, 8th Floor, Richmond, VA, telephone (804) 698-4070, and
- 2) Northern Regional Office, 13901 Crown Court, Woodbridge, VA, telephone (703) 583-3800.

Contact Information: Doris McLeod, Department of Environmental Quality, 629 East Main Street, P.O. Box 1105, Richmond, VA 23218, telephone (804) 698-4197, FAX (804) 698-4510, TDD (804) 698-4021, or email [doris.mcleod@deq.virginia.gov](mailto:doris.mcleod@deq.virginia.gov).

#### Notice of Periodic Review

The Department of Environmental Quality (DEQ) will conduct a periodic review of portions of the Regulations for

the Control and Abatement of Air Pollution, specifically, Article 28 (Emission Standards for Automobile and Light Duty Truck Coating Application Systems (Rule 4-28)) of 9VAC5-40, Existing Stationary Sources.

The purpose of the review is to determine whether the regulation should be terminated, amended, or retained in its current form. The review of the regulation will be guided by the principles listed in Executive Order Number Fourteen (2010) and § 2.2-4007.1 of the Code of Virginia. The department and the board are seeking public comments on the review of any issue relating to the regulation including whether (i) the regulation is effective in achieving its goals; (ii) the regulation is essential to protect the health, safety, or welfare of citizens or for the economical performance of important governmental functions; (iii) there are available alternatives for achieving the purpose of the regulation; (iv) there are less burdensome and less intrusive alternatives for achieving the purpose of the regulations; and (v) the regulation is clearly written and easily understandable by the affected persons. In addition, the department and the board are seeking public comment on ways to minimize the economic impact on small businesses in a manner consistent with the purpose of the regulations.

The regulation may be viewed on the DEQ air regulation webpage at <http://www.deq.state.va.us/Programs/Air/LawsRegulationsGuidance.aspx>.

The purpose of the regulation is to control emissions from specific types of existing stationary sources to protect human health and the environment. Section 10.1-1308 of the Code of Virginia requires that this regulation be promulgated. This regulation is designed to protect public health and welfare with the least possible costs and intrusiveness to the citizens and businesses of the Commonwealth and to provide the necessary procedures and rules by which the statute may be administered.

The comment period begins January 28, 2013, and ends on February 19, 2013.

Comments may be submitted online to the Virginia Regulatory Town Hall at <http://www.townhall.virginia.gov/L/Forums.cfm>.

Comments may also be sent to Mary E. Major, Environmental Program Manager, Office of Regulatory Affairs, Department of Environmental Quality, P.O. Box 1105, Richmond, VA 23218 (deliveries can be made to 629 East Main Street, Richmond, VA 23219), telephone (804) 698-4423, FAX (804) 698-4510, or email [mary.major@deq.virginia.gov](mailto:mary.major@deq.virginia.gov).

Comments must include the commenter's name and address (physical or email) information in order to receive a response to the comment from the agency. Following the close of the public comment period, a report of the periodic review will be

posted on the Town Hall and published in the Virginia Register of Regulations.

## Notice of Periodic Review

The Department of Environmental Quality (DEQ) will conduct a periodic review of portions of the Regulations for the Control and Abatement of Air Pollution, specifically, Article 3 (Federal Operating Permits for Acid Rain Sources), Article 4 (Insignificant Activities) and Article 5 (State Operating Permits) of 9VAC5-80, Permits for Stationary Sources.

The purpose of the review is to determine whether the regulations should be terminated, amended, or retained in their current form. The review of the regulations will be guided by the principles listed in Executive Order Number Fourteen (2010) and § 2.2-4007.1 of the Code of Virginia. The department and the board are seeking public comments on the review of any issue relating to the regulations including whether (i) the regulations are effective in achieving their goals; (ii) the regulations are essential to protect the health, safety, or welfare of citizens or for the economical performance of important governmental functions; (iii) there are available alternatives for achieving the purpose of the regulations; (iv) there are less burdensome and less intrusive alternatives for achieving the purpose of the regulations; and (v) the regulations are clearly written and easily understandable by the affected persons. In addition, the department and the board are seeking public comment on ways to minimize the economic impact on small businesses in a manner consistent with the purpose of the regulations.

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The comment period begins January 28, 2013, and ends on February 19, 2013.

Comments may be submitted online to the Virginia Regulatory Town Hall at <http://www.townhall.virginia.gov/L/Forums.cfm>. Comments may also be sent to Gary Graham, Regulatory Analyst, Office of Regulatory Affairs, Department of Environmental Quality, P.O. Box 1105, Richmond, VA 23218 (deliveries can be made to 629 East Main Street, Richmond, VA 23219),



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## General Notices/Errata

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telephone (804) 698-4103, FAX (804) 698-4510, or email [gary.graham@deq.virginia.gov](mailto:gary.graham@deq.virginia.gov).

Comments must include the commenter's name and address (physical or email) information in order to receive a response to the comment from the agency. Following the close of the public comment period, a report of the periodic review will be posted on the Town Hall and published in the Virginia Register of Regulations.

### Notice of Periodic Review

The Department of Environmental Quality (DEQ) will conduct a periodic review of portions of the Regulation for Emissions Trading (9VAC5-140), specifically, Part I, NO<sub>x</sub> Budget Trading Program.

The purpose of the review is to determine whether the regulation should be terminated, amended, or retained in its current form. The review of the regulation will be guided by the principles listed in Executive Order Number Fourteen (2010) and § 2.2-4007.1 of the Code of Virginia. The department and the board are seeking public comments on the review of any issue relating to the regulation including whether (i) the regulation is effective in achieving its goals; (ii) the regulation is essential to protect the health, safety, or welfare of citizens or for the economical performance of important governmental functions; (iii) there are available alternatives for achieving the purpose of the regulation; (iv) there are less burdensome and less intrusive alternatives for achieving the purpose of the regulation; and (v) the regulation is clearly written and easily understandable by the affected persons. In addition, the department and the board are seeking public comment on ways to minimize the economic impact on small businesses in a manner consistent with the purpose of the regulation.

The regulation may be viewed on the DEQ air regulation webpage at <http://www.deq.state.va.us/Programs/Air/LawsRegulationsGuidance.aspx>.

The purpose of the regulation is to control emissions from specific types of existing stationary sources to protect human health and the environment. Section 10.1-1308 of the Code of Virginia requires that these regulations be promulgated. This regulation is designed to protect public health and welfare with the least possible costs and intrusiveness to the citizens and businesses of the Commonwealth and to provide the necessary procedures and rules by which the statute may be administered.

The comment period begins January 28, 2013, and ends on February 19, 2013.

Comments may be submitted online to the Virginia Regulatory Town Hall at <http://www.townhall.virginia.gov/L/Forums.cfm>. Comments may also be sent to Mary E. Major, Environmental Program

Manager, Office of Regulatory Affairs, Department of Environmental Quality, P.O. Box 1105, Richmond, VA 23218 (deliveries can be made to 629 East Main Street, Richmond, VA 23219), telephone (804) 698-4423, FAX (804) 698-4510, or email [mary.major@deq.virginia.gov](mailto:mary.major@deq.virginia.gov).

Comments must include the commenter's name and address (physical or email) information in order to receive a response to the comment from the agency. Following the close of the public comment period, a report of the periodic review will be posted on the Town Hall and published in the Virginia Register of Regulations.

### Initiation of a Water Quality Restoration Study (TMDL) in the Pamunkey River Mainstem and Tributaries in Spotsylvania, Hanover, New Kent, and King William Counties

Public meetings: Meetings are offered at different two convenient locations within the watershed. Two meetings will be held on Wednesday, February 20, 2013, at the Central Rappahannock Regional Library, Snow Branch, 8740 Courthouse Road, Spotsylvania, VA 22553, at 2 p.m. and 6 p.m. Two meetings will also be held on Thursday, February 21, 2013, at the Town Hall of Ashland, 101 Thompson Street, Ashland, VA 23005, at 2 p.m. and 6 p.m. All meetings are open to the public. Meeting materials and presentations are identical in terms of content. In the case of inclement weather, please contact Margaret Smigo at (804) 527-5124.

Purpose of notice: The Virginia Department of Environmental Quality (DEQ) and consultant, MapTech Inc., are presenting preliminary data for the initiation of a total maximum daily load (TMDL) study to restore water quality at four public meetings (identical content), an opportunity for the public to share their knowledge of the watershed, and a public comment period following the meetings (February 22, 2013 through March 25, 2013).

Meeting description: Public meetings on a study to restore water quality along the Pamunkey River and tributaries (see table below) will feature preliminary information gathered for the watershed including land use, water quality monitoring, and suspected cause(s) of impairment. Those attending are invited to ask questions and to contribute their knowledge of the watershed. Presentation will be posted on the DEQ website following the meetings at: <http://www.deq.virginia.gov/Programs/Water/WaterQualityInformationTMDLs/TMDL/TMDLDevelopment/DocumentationforSelectTMDLs.aspx>

Description of study: Virginia agencies have been working to identify sources of the bacterial contamination in the waters of the Pamunkey River and its tributaries in the following impaired waterways:

Stream	County/City	Length (mi.)	Impairment
Northeast Creek	Spotsylvania	2.74	Bacteria (Primary Contact / Swimming Use / Recreation Use)
Little River	Louisa	4.01	
Beaverdam Creek	Hanover	8.47	
Little River	Hanover	10.77	
Mill Creek	Caroline	4.39	
Pamunkey River	Caroline, Hanover, King William	12.26	
Kersey Creek (trib to Crump Creek)	Hanover	2.76	
(XJC) Crump Creek UT	Hanover	1.79	
Pollard Creek (UT to Crump Creek)	Hanover	4.06	
Crump Creek	Hanover	10.08	
(XDW) Pamunkey River UT	King William	5.51	
UT (XDX) to UT (XDW) to Pamunkey River	King William	3.85	
Pamunkey River	Hanover, King William	0.305 sq miles (estuarine - tidal)	
Jacks Creek and Tributaries	King William	21.05	
(XID) Harrison Creek UT	King William	0.16	
Harrison Creek	King William	2.80	
Harrison Creek	King William	0.048 sq miles (estuarine - tidal)	
Pamunkey River	King William, New Kent	3.634 sq miles (estuarine - tidal)	

These streams are impaired for failure to meet the Primary Contact (Recreational or Swimming) designated use because of bacteria standard violations. This standard is meant to indicate excessive bacteria levels which may pose a threat to human health if bodily exposure to these waterways by recreation, such as "primary contact" or swimming, occurs. The study reports on the sources of bacterial contamination and recommends TMDLs for the impaired waters. A TMDL is the total amount of a pollutant a water body can contain and still meet water quality standards. To restore water quality, bacterial levels need to be reduced to the TMDL amount.

How a decision is made: The development of a TMDL includes 2 sets of public meetings and comment periods; one to initiate the study and another to present the final draft TMDL report. This meeting is the first for the Pamunkey River and tributaries project. After the final public meeting and all public comments have been considered and addressed, DEQ will submit the TMDL report to the U.S. Environmental Protection Agency and the State Water Control Board for approval.

How to comment: DEQ accepts written comments by email, fax or postal mail. Written comments should include the name, address and telephone number of the person commenting and be received by DEQ during the comment period, which will begin on Friday, February 22, 2013, and end on Monday, March 25, 2013.

Contact for additional information: Margaret Smigo, TMDL Coordinator, Department of Environmental Quality, Piedmont Regional Office, 4949A Cox Road, Glen Allen, VA 23060, telephone (804) 527-5124, FAX (804) 527-5106, or email [margaret.smigo@deq.virginia.gov](mailto:margaret.smigo@deq.virginia.gov).

**STATE WATER CONTROL BOARD**

**Proposed Enforcement Action for Acacia Credit Fund 10-A, L.L.C.**

An enforcement action has been proposed for Acacia Credit Fund 10-A, L.L.C., for violations of the State Water Control Law and Regulations in Stafford County associated with the Oakley Farm development. The consent order describes a settlement to resolve unpermitted impacts to surface waters on the property. A description of the proposed action is available at the Department of Environmental Quality (DEQ) office named below or online at [www.deq.virginia.gov](http://www.deq.virginia.gov). Stephanie Bellotti will accept comments by email at [stephanie.bellotti@deq.virginia.gov](mailto:stephanie.bellotti@deq.virginia.gov), FAX (703) 583-3821, or postal mail at Department of Environmental Quality, Northern Regional Office, 13901 Crown Court, Woodbridge, VA 22193, from January 29, 2013, through February 28, 2013.

**Proposed Enforcement Action for MRK, L.L.C.**

An enforcement action has been proposed for MRK, L.L.C., for alleged violations of the State Water Control Law at Vickie's Convenience Store and Gas Station in Portsmouth, VA. A description of the proposed action is available at the Department of Environmental Quality (DEQ) office named below or online at [www.deq.virginia.gov](http://www.deq.virginia.gov). Mr. Robin Schuhmann will accept comments by email at [robin.schuhmann@deq.virginia.gov](mailto:robin.schuhmann@deq.virginia.gov), FAX (757) 518-2009, or postal mail at Department of Environmental Quality, Tidewater Regional Office, 5636 Southern Blvd., Virginia Beach, VA 23462, from January 28, 2013, to February 26, 2013.

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## General Notices/Errata

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### **Proposed Enforcement Action for the City of Portsmouth**

An enforcement action has been proposed for the City of Portsmouth for alleged violations of the Virginia Pollutant Discharge Elimination System Permit at the Lake Kilby Water Treatment Facility at 105 Maury Place, Suffolk, VA. A description of the proposed action is available at the Department of Environmental Quality (DEQ) office named below or online at [www.deq.virginia.gov](http://www.deq.virginia.gov). Paul R. Smith will accept comments by email at [paul.smith@deq.virginia.gov](mailto:paul.smith@deq.virginia.gov), FAX (757) 518-2009, or postal mail at Department of Environmental Quality, Tidewater Regional Office, 5636 Southern Blvd., Virginia Beach, VA 23462, from January 28, 2013, to February 27, 2013.

### **VIRGINIA CODE COMMISSION**

#### **Notice to State Agencies**

**Contact Information:** *Mailing Address:* Virginia Code Commission, General Assembly Building, 201 North 9th Street, 2nd Floor, Richmond, VA 23219; *Telephone:* Voice (804) 786-3591; FAX (804) 692-0625; *Email:* [varegs@dls.virginia.gov](mailto:varegs@dls.virginia.gov).

**Meeting Notices:** Section 2.2-3707 C of the Code of Virginia requires state agencies to post meeting notices on their websites and on the Commonwealth Calendar at <http://www.virginia.gov/>.

**Cumulative Table of Virginia Administrative Code Sections Adopted, Amended, or Repealed:** A table listing regulation sections that have been amended, added, or repealed in the *Virginia Register of Regulations* since the regulations were originally published or last supplemented in the print version of the Virginia Administrative Code is available at <http://register.dls.virginia.gov/cumultab.htm>.

**Filing Material for Publication in the Virginia Register of Regulations:** Agencies use the Regulation Information System (RIS) to file regulations and related items for publication in the *Virginia Register of Regulations*. The Registrar's office works closely with the Department of Planning and Budget (DPB) to coordinate the system with the Virginia Regulatory Town Hall. RIS and Town Hall complement and enhance one another by sharing pertinent regulatory information.