



STATE OF CALIFORNIA

## Department of Financial Protection and Innovation

GOVERNOR **Gavin Newsom** • COMMISSIONER **KC Mohseni**

### NOTICE OF RULEMAKING ACTION TITLE 10. CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

#### NOTICE IS HEREBY GIVEN (Gov. Code, § 11346.5, subd. (a)(1))

The Commissioner of Financial Protection and Innovation (“Commissioner”) proposes to amend existing regulations under the Corporate Securities Law of 1968. Specifically, the Commissioner proposes to amend sections 260.210, 260.216.7, 260.218.4, 260.230, 260.230.1, 260.231, 260.238, and 260.241 of title 10 of the California Code of Regulations. The proposed regulations relate to revising certain forms and notices; adding to the list of activities that do not promote “fair, equitable or ethical principles”; clarifying books and records maintenance practices for broker-dealers; and revising procedures for filing documents directly with the Commissioner.

#### AUTHORITY (Gov. Code, § 11346.5, subd. (a)(2))

Corporations Code sections 25216(a), 25218, 25230.1, 25231, 25238, 25241, 25610, 25612.3 and 25612.5.

#### REFERENCE (Gov. Code, § 11346.5, subd. (a)(2))

Corporations Code sections 25210, 25213, 25213.3, 25216, 25217, 25218, 25230, 25230.1, 25231, 25234, 25236, 25237, 25238, 25241, 25242, 25608, 25608.1(d), 25612.3, 25612.5, and 25613; Business and Professions Code sections 31 and 494.5; Civil Code sections 1633.7 and 1798.17; Family Code section 17520; Government Code sections 7470, 7473, 7490 and 13140-13144; Penal Code section 11077.1; and Section 7 of Public Law 93-579 (5 U.S.C. section 552a note).

#### PUBLIC COMMENTS (Gov. Code, § 11346.5, subd. (a)(17))

No public hearing is scheduled. Any interested person or his or her duly authorized representative may request, in writing, a public hearing pursuant to Government Code section 11346.8, subdivision (a). The request for a hearing must be received by the Department of Financial Protection and Innovation’s (“Department”) contact person designated below no later than 15 days prior to the closing of the written comment period.

#### WRITTEN COMMENT PERIOD (Gov. Code, § 11346.5, subd. (a)(15))

##### Where to Submit Comments

Any interested person, or his or her authorized representative, may submit written comments on the proposed regulatory action to the Department, addressed as follows,

by any of these means:

*By Postal Mail*

Department of Financial Protection and Innovation  
Attn: Diana Pha, Regulations Coordinator  
651 Bannon St., Ste. 300  
Sacramento, California 95811

*By Electronic Mail*

Comments may be submitted electronically to [regulations@dfpi.ca.gov](mailto:regulations@dfpi.ca.gov). Please identify the comments as PRO 05-17 in the subject line and submit the comments in Microsoft Word format, if available.

*Time for Comments*

Comments may be submitted until 09/01/2025. If the final day for the acceptance of comments is a Saturday, Sunday or state holiday, the comment period will close on the next business day.

INFORMATIVE DIGEST (Gov. Code, § 11346.5, subd. (a)(3))

Policy Statement and Specific Benefits Anticipated from Regulatory Action (Gov. Code, § 11346.5, subd. (a)(3)(C))

Updates to a broad range of rules are necessary to increase investor safeguards, clarify legal requirements for individuals providing investment advisory services, and maintain consistency with other relevant California and federal laws. Additionally, proposed changes are necessary to increase consistency with standardized practices by the Financial Industry Regulatory Authority (“FINRA”), which administers the qualification examinations for investment advisers and broker-dealers and operates the Investment Adviser Registration Depository (“IARD”) and Central Registration Directory (“CRD”).

The anticipated benefits of this regulatory action mirror the goals of the Corporate Securities Law of 1968: protecting the public from fraud and deception in securities transactions. The proposed regulations help achieve this goal by adding to the list of activities that do not promote “fair, equitable or ethical principles,” and clarifying maintenance practices for books and records.

This regulatory action also promotes openness and transparency in government. By revising notices required by California and federal law to the Authorization for the Disclosure of Financial Records form, investment adviser applicants will be better informed regarding the information collected by the Department and its potential uses. This regulatory action also clarifies and simplifies filing procedures for broker-dealers and investment advisers. Furthermore, the revisions to statutory and regulatory references

ensure licensees and the public are provided accurate information regarding an investment adviser's or broker-dealer's legal obligations.

Summary of Existing Laws and Regulations, and Effect of Proposed Action (Gov. Code, § 11346.5, subd. (a)(3)(A))

The Corporate Securities Law of 1968, Corporations Code section 25000, et seq., regulates all offers and sales of securities in California.

Existing law requires that the Department provides certain notices under state and federal law to individuals applying to register as broker-dealers in California. By regulation, the Department has established a uniform form that includes these required notices. One such notice currently provides the Department's Securities Regulation Division is requesting information regarding the application. The same notice also provides that the Chief Administrative Officer, including that officer's address and phone number, is the contact for records-related requests. Because the aforementioned information is outdated, this proposed action revises this information to provide the correct office that is requesting information regarding the application and the correct contact for records-related requests.

Existing law requires that any documents required to be filed with the Commissioner that are not permitted to be filed or cannot be accepted by IARD shall be filed in paper directly with the Commissioner. This proposed action changes the filing procedure to require electronic filing via email instead of in-paper filings. This change is also made in the procedures for directly filing the Customer Authorization of Disclosure of Financial Records form with the Commissioner.

Existing law requires Part 2 of the Form ADV, which was not accepted by IARD, to be filed directly with the Commissioner. This proposed action removes this instruction because Part 2 of Form ADV is now accepted by IARD, making the entire provision moot.

Existing law provides forms entitled "Customer Authorization of Disclosure of Financial Records" and "Instructions for Customer Authorization of Disclosure of Financial Records," which, if signed, authorizes the licensee to disclose to the Department certain business records. This proposed action changes the identification number for licensees from a Department file number, which is no longer used, to a FINRA CRD number, which is an industry standard. The action also revises the form instructions by requiring electronic filing and adding a reminder regarding maintenance requirements for the form. This proposed action also revises the standard uniform notices in the same manner described above.

Existing law enumerates fifteen activities that promote "fair, equitable or ethical principles" as the phrase is used by law. This proposed action adds six activities to the existing list of fifteen activities.

Existing law requires broker-dealers to make, maintain, and preserve books and records. This proposed action adds that such books and records must be legible, true, complete, accurate, and current.

Existing Federal Regulation or Statute (Gov. Code, § 11346.5, subd. (a)(3)(B))

Broker-dealers and investment advisers may be subject to federal securities laws, including the Securities Act of 1933, Securities Exchange Act of 1934, Investment Company Act of 1940, and Investment Advisers Act of 1940, among others. The proposed regulatory action is not inconsistent with existing federal laws.

Existing State Regulations (Gov. Code, § 11346.5, subd. (a)(3)(D))

The Commissioner has evaluated whether the proposed regulations are consistent with existing state regulations and has concluded that these regulations are consistent with existing regulations under the Corporate Securities Law of 1968. This proposed rulemaking is neither inconsistent nor incompatible with other existing state regulations.

FORMS INCORPORATED BY REFERENCE (Cal. Code Regs., tit. 1, § 20, subd. (c)(3))

This proposed regulatory action does not incorporate any forms by reference.

DISCLOSURES REGARDING THE PROPOSED ACTION (Gov. Code, § 11346.5, subd. (a)(5), (6), (12)(A))

- Mandate on local agencies or school districts: none.
- Cost or savings to any State agency: none.
- Cost to any local agency or school district which must be reimbursed in accordance with Government Code sections 17500 through 17630: none.
- Other nondiscretionary cost or savings imposed on local agencies: none.
- Cost or savings in federal funding to the state: none.
- Significant effect on housing costs: none.

ECONOMIC IMPACT ON BUSINESS (Gov. Code, § 11346.5, subd. (a)(8))

The Commissioner has made an initial determination that the proposed regulatory action is unlikely to have a significant, statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states. The Commissioner has not relied on any other reports, facts, evidence, documents, or testimony to support the initial determination that the regulation is unlikely to have a significant, statewide adverse economic impact on business.

#### EFFECT ON SMALL BUSINESS (Cal. Code Regs., tit. 1, § 4)

Under Government Code section 11342.610, subdivision (b), securities broker-dealers and investment advisers are not a small business. Therefore, this rulemaking action will not have an impact on small businesses.

#### COST IMPACTS ON REPRESENTATIVE PRIVATE PERSON OR BUSINESS (Gov. Code, § 11346.5, subd. (a)(9))

The Department is not aware of any cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action.

#### RESULTS OF THE ECONOMIC IMPACT ANALYSIS (Gov. Code, § 11346.5, subd. (a)(10))

The Commissioner has determined:

- The proposed action is unlikely to create or eliminate jobs within the state.
- The proposed action is unlikely to create new businesses or eliminate existing businesses within the state.
- The proposed action is unlikely to expand businesses currently doing business within California.
- As discussed above under the Informative Digest, the proposed action may benefit the health and welfare of California residents by improving the quality of investment advisory services they receive.
- No benefits or adverse impacts to worker safety or to the state's environment are anticipated from this regulatory action.

#### BUSINESS REPORTING REQUIREMENT (Gov. Code, § 11346.5, subd. (a)(11))

This proposed action does not impose any business reporting requirements.

#### CONSIDERATION OF ALTERNATIVES (Gov. Code, § 11346.5, subd. (a)(13))

The Commissioner must determine that no reasonable alternative considered by the Department, or that has otherwise been identified and brought to the attention of the Department, would be: more effective in carrying out the purpose for which the action is proposed; as effective and less burdensome to affected private persons than the proposed action; or more cost-effective to affected private persons and equally effective in implementing the statutory policy or other provision of the law.

AVAILABILITY OF THE NOTICE, STATEMENT OF REASONS, TEXT OF PROPOSED REGULATIONS AND RULEMAKING FILE (Gov. Code, § 11346.5, subds. (a)(16), (20), and (b))

As of the date this Notice is published, the rulemaking file consists of this Notice, the Initial Statement of Reasons, the Proposed Text of the regulations, and all the information upon which the proposal is based. The Department will make the entire rulemaking file available for inspection and copying throughout the rulemaking process at the address provided, and from the persons identified, in the “Contact Persons” section of this Notice.

The Notice, Initial Statement of Reasons and Proposed Text are also available on the Department’s website at [www.dfpi.ca.gov](http://www.dfpi.ca.gov). To access the documents from the Department’s website, select the “Rules & Enforcement” tab on the home page, select the “Laws & Regulations” link, and then select the “Corporate Securities Law of 1968” link.

AVAILABILITY OF CHANGED OR MODIFIED TEXT (Gov. Code, § 11346.5, subd. (a)(18))

If the Department makes changes which are sufficiently related to the original proposed text, it will make the modified text (with changes clearly indicated) available to the public for at least 15 days before the Department adopts, amends or repeals the regulations as revised. A request for a copy of any modified regulations should be addressed to the contact persons named in this notice. The Department will accept written comments on the modified regulations for at least 15 days after the date on which they are made available.

AVAILABILITY OF FINAL STATEMENT OF REASONS (Gov. Code, § 11346.5, subd. (a)(19))

Upon its completion, the Final Statement of Reasons will be available to the public, and copies may be requested from the contact persons named in this notice or accessed on the Department’s website listed above.

CONTACT PERSONS (Gov. Code, § 11346.5, subd. (a)(14))

Direct all inquiries concerning the proposed rulemaking action (including requests for copies of the proposed text of the regulations, the initial statement of reasons, or the modified text of the regulation, and questions regarding the timelines or rulemaking status) to:

Department of Financial Protection and Innovation  
Attn: Diana Pha, Regulations Coordinator  
651 Bannon St., Ste. 300, Sacramento, CA 95811  
Telephone: (279) 236-5285  
E-mail: [regulations@dfpi.ca.gov](mailto:regulations@dfpi.ca.gov)

The backup contact person for these inquiries is:

Department of Financial Protection and Innovation

Attn: Mark Ahn

300 S. Spring Street, Suite 15513

Los Angeles, California 90013

Telephone: (213) 789-4521

E-mail: [mark.ahn@dfpi.ca.gov](mailto:mark.ahn@dfpi.ca.gov)