

## STATEMENT OF BASIS AND PURPOSE

Amendment to Chapter 4 of the Rules Under the Colorado Securities Act  
Colorado Division of Securities  
December 17, 2014

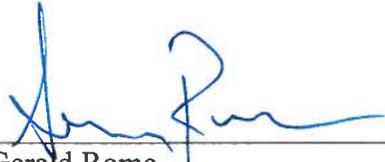
Pursuant to the authority found in the Colorado Securities Act (the "Act"), sections 11-51-101, *et seq.*, C.R.S., including parts 4 and 7 of the Act, the Securities Commissioner adopts the amendment to Rule 51-4.7 on December 17, 2014.

The general purpose of the amendment to Rule 51-4.7 is to include prohibited conduct identified in certain FINRA Rules in the rule that delineates "unfair and dishonest dealings" for the purpose of section 11-51-410(1)(g), C.R.S. Section 11-51-101(3), C.R.S. states that the Act "shall be coordinated" with the applicable federal acts and statutes to which references are made in the article. Furthermore, in *Cagle v. Mathers Family Trust*, 295 P.3d 460 (Colo. 2013), the Colorado Supreme Court stated, "The language of the [Act] shows the legislature's intent that Colorado securities law be coordinated with federal securities law ...." Broker-dealers and sales representatives are regulated by the Division of Securities at the state level and by FINRA at the federal level. Sections 2000 and 3000 of the FINRA Rules regulate the conduct of broker-dealers and sales representatives. Specifically, these sections prescribe broker-dealer and sales representative conduct regarding duties, conflicts, and supervision. Conduct that is prohibited at the federal level by FINRA should also be prohibited in Colorado. Thus, the proposed amendment would be consistent with the purposes and provisions of the Act by enhancing uniformity and coordinating the Act with federal-level regulations, as required by section 11-51-101(3), C.R.S. and *Cagle v. Mathers*.

The Securities Commissioner finds that the adoption of the permanent amendment to Rule 51-4.7 is necessary and appropriate in the public interest and is consistent with the purposes and provisions of the Act. The Securities Commissioner further finds, based on information provided by broker-dealers and sales representatives at the hearing on the proposed rule, that licensed broker-dealers and sales representatives who will be required to comply with the rule generally agree that the conduct prohibited by the rule does not meet prevailing standards of fair and honest dealings within the securities industry and that it is reasonable to expect the rule will prevent or deter such conduct. Finally, the Securities Commissioner finds that the record demonstrates the need for this rule, the rule is clearly and simply stated, proper statutory authority exists for the rule, the rule does not conflict with any other rules or statutes governing the Division of Securities, and the rule is coordinated with the federal acts and statutes and the rules and regulations promulgated thereunder to which references are made to the extent coordination with them is consistent with the purposes and provisions of the Act.

This general statement of basis and purpose is incorporated by reference in the rule adopted by the Securities Commissioner on December 17, 2014. The rule will become effective approximately 20 days after the adopted rule is published in the Colorado Register.

DATED this 17<sup>th</sup> day of December.

  
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Gerald Rome  
Securities Commissioner