

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Fiscal Note

BILL NUMBER: House Bill 63 (First Edition)

SHORT TITLE: NC Intrastate Private Capital Act.

SPONSOR(S): Representatives Millis and Collins

FISCAL IMPACT					
	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> No Estimate Available		
State Impact	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
General Fund Revenues:					
General Fund Expenditures:	\$66,808.0	\$66,808.0	\$66,808.0	\$66,808.0	\$66,808.0
State Positions:	1.0	1.0	1.0	1.0	1.0
NET STATE IMPACT	(\$66,808.0)	(\$66,808.0)	(\$66,808.0)	(\$66,808.0)	(\$66,808.0)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Secretary of State					
EFFECTIVE DATE: Effective when it becomes law					
TECHNICAL CONSIDERATIONS: None					

BILL SUMMARY:

Adds new GS 78A-17A, Intrastate private capital exemption, to Article 3 (Exemptions) of GS Chapter 78A.

Exempts the offer or sale of a security by an issuer from the registration requirements of GS Chapter 78A, Article 4 (Registration and Notice Filing Procedures of Securities). Also exempts any seller who represents an issuer in an offer or sale from the registration requirements of GS Chapter 78A, Article 5 (Registration of Dealers and Salesmen). Conditions the receipt of the exemptions from the registration requirements under Article 4 and 5 on the meeting of ten requirements as specified in subsection (b) of new GS 78A-17A. The ten requirements include that a North Carolina non-accredited investor has not invested more than \$5,000 in a single North Carolina qualified company per year; that the transaction meets the requirements of the federal exemption for intrastate offerings (as specified); and that the issuer informs all purchasers in writing that the securities have not been registered and may be restricted for sale.

Authorizes the North Carolina Securities Division of the Department of the Secretary of State to adopt rules to carry out and enforce the provisions of new GS 78A-17A, and to register and regulate intrastate regional private equity fund companies, under the rules contained in Title II of the JOBS Act of 2012 and Regulation D Rule 506(c).

Directs the North Carolina Securities Administrator to prepare a disclosure brochure form suitable for use in conformity with this section. Requires the disclosure brochure to require an investor to state whether the investor is accredited or non-accredited.

Provides that the anti-fraud requirements of Rule 206(4)-8 under the Investment Advisers Act of 1940 and the anti-fraud provisions of GS Chapter 78A apply to investment advisers to private equity fund companies. Also provides that GS 78A-8, Sales and Purchases, and GS 78A-56(a)(2), Civil Liabilities, apply to this section.

ASSUMPTIONS AND METHODOLOGY:

Enacting crowdfunding legislation will create a new responsibility for the Secretary of State's Securities Division. This division will be responsible for overseeing the security offerings made under the crowdfunding exemption. One Financial Investigator I position, salary of \$50,000 and total cost of \$66,808, should be sufficient to handle the increased responsibilities of this legislation.

It is difficult to predict the workload the crowdfunding exemption will create. Georgia and Kansas passed similar crowdfunding exemptions and less than ten companies took advantage of the new law in each state. One possibility to decrease administrative costs would be to create the Financial Investigator I position as a time-limited position limited to one year. The General Assembly could reevaluate the need for the position during the next budget cycle either absorbing the workload into existing positions or making the Financial Investigator I position permanent.

SOURCES OF DATA: Secretary of State, Georgia, Kansas

TECHNICAL CONSIDERATIONS: None

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DATE: April, 15, 2015



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