

## Article 2.

### Fraudulent and Prohibited Practices.

#### **§ 78C-8. Advisory activities.**

(a) It is unlawful for any person who receives, directly or indirectly, any consideration from another person for advising the other person as to the value of securities or their purchase or sale, whether through the issuance of analyses or reports or otherwise,

- (1) To employ any device, scheme, or artifice to defraud the other person,
- (2) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon the other person, or
- (3) Acting as principal for his own account, knowingly to sell any security to or purchase any security from a client, or acting as broker for a person other than such client, knowingly to effect any sale or purchase of any security for the account of such client, without disclosing to such client in writing before the completion of such transaction the capacity in which he is acting and obtaining the consent of the client to such transaction. The prohibitions of this subdivision shall not apply to any transaction with a customer of a dealer if such dealer is not acting as an investment adviser in relation to such transaction.

(b) In the solicitation of advisory clients, it is unlawful for any person to make any untrue statement of a material fact, or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading.

(c) Except as may be permitted by rule or order of the Administrator, it is unlawful for any investment adviser to enter into, extend, or renew any investment advisory contract unless it provides in writing:

- (1) That the investment adviser shall not be compensated on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of the client (unless otherwise provided by subsection (d) or (f) below);
- (2) That no assignment of the contract may be made by the investment adviser without the consent of the other party to the contract; and
- (3) That the investment adviser, if a partnership, shall notify the other party to the contract of any change in the membership of the partnership within a reasonable time after the change.

(d) Subdivision (c)(1) does not apply to any person who is exempt from registration under G.S. 78C-16(a)(4) or to the performance, renewal, or extension of any advisory contract entered into by an investment advisor at a time when such investment advisor was exempt from registration under G.S. 78C-16(a)(4). Subdivision (c)(1) does not prohibit an investment advisory contract which provides for compensation based upon the total value of a fund averaged over a definite period, or as of definite dates or taken as of a definite date. "Assignment," as used in subdivision (c)(2), includes any direct or indirect transfer or hypothecation of an investment advisory contract by the assignor or of a controlling block of the assignor's outstanding voting securities by a security holder of the assignor; but, if the investment adviser is a partnership, no assignment of an investment advisory contract is considered to result from the death or withdrawal of a minority of the members of the investment adviser having only a minority interest in the business of the investment adviser, or from the admission to the investment adviser of one or more members who, after admission, will be only a minority of the members and will have only a minority interest in the business.

(e) It is unlawful for any investment adviser to take or have custody of any securities or funds of any client in contravention of any rule or order of the Administrator prohibiting, limiting or regulating such custody.

(f) The Administrator may by rule or order adopt exemptions from subdivision (a)(3) and subdivisions (c)(1), (c)(2) and (c)(3) where such exemptions are consistent with the public interest and within the purposes fairly intended by the policy and provisions of this Chapter. (1987 (Reg. Sess., 1988), c. 1098, s. 1; 2013-91, s. 3(g).)

**§ 78C-9. Misleading filings.**

It is unlawful for any person to make or cause to be made, in any document filed with the Administrator or in any proceeding under this Chapter, any statement which is, at the time and in the light of the circumstances under which it is made, false or misleading in any material respect. (1987 (Reg. Sess., 1988), c. 1098, s. 1.)

**§ 78C-10. Unlawful representations concerning registration or exemption.**

(a) Neither (i) the fact that an application for registration under Article 3 of this Chapter has been filed nor (ii) the fact that a person is effectively registered constitutes a finding by the Administrator that any document filed under this Chapter is true, complete, and not misleading. Neither any such fact nor the fact that an exemption or exception is available means that the Administrator has passed in any way upon the merits or qualifications of, or recommended, or given approval to any person.

(b) It is unlawful to make, or cause to be made, to any prospective customer, or client, any representation inconsistent with subsection (a) of this section. (1987 (Reg. Sess., 1988), c. 1098, s. 1.)

**§§ 78C-11 through 78C-15: Reserved for future codification purposes.**