

or elected prior to the effective date of this title, and every such officer so appointed or elected prior to the effective date of this title; but such exemption shall continue only so long as (A) the conduct of such company's business remains subject to the supervision of such court or officer thereof, and (B) such company does not sell exclusively for cash any security of which it is the issuer, except short-term paper and ordinary receiver's or trustee's certificates.

(b) Upon application by any employees' securities company, the Commission shall be order exempt such company from the provisions of this title and of the rules and regulations hereunder, if and to the extent that it finds such exemption consistent with the protection of investors. In determining the provisions to which such an order of exemption shall apply, the Commission shall give due weight, among other things, to the form or organization and the capital structure of such company, the persons by whom its voting securities, evidence of indebtedness, and other securities are owned, controlled, and held, the prices at which securities issued by such company are sold and the sales load thereon, the disposition of the proceeds of such sales, the character of the securities in which such proceeds are invested, and any relationship between such company and the issuer of any such security.

(c) The Commission, by rules and regulations upon its own motion, or by order upon application, may conditionally or unconditionally exempt any person, security, or transaction, or any class or classes of persons, securities, or transactions, from any provision or provisions of this title or of any rule or regulation thereunder, if and to the extent that the Commission finds such exemption necessary or appropriate in the public interest and consistent with the protection of investors.

(d) If, in connection with any rule, regulation, or order under this section exempting any investment company from any provision of section 7, the Commission deems it necessary or appropriate in the public interest or for the protection of investors that certain specified provisions of this title pertaining to registered investment companies shall be applicable in respect of such company, the provisions so specified shall apply to such company, and to other persons in their transactions and relations with such company, as though such company were a registered investment company.

#### TRANSACTIONS BY UNREGISTERED INVESTMENT COMPANIES

Sec. 7. (a) No management investment company or face-amount certificate company, unless exempted from the provisions of this subsection pursuant to section 6 or effectively registered under section 8, shall directly or indirectly—

(1) offer for sale, sell, or deliver after sale, by the use of the mails or any means or instrumentality of interstate commerce, any security or any interest in a security, whether the issuer of such security is such investment company or another person; or offer for sale, sell, or deliver after sale any such security or interest, having reason to believe that such security or interest will be made the subject of a public offering by use of the mails or any means or instrumentality of interstate commerce;

(2) purchase, redeem, retire, or otherwise acquire or attempt to acquire, by use of the mails or any means or instrumentality of interstate commerce, any security or any interest in a security, whether the issuer of such security is such investment company or another person;

(3) control any investment company which does any of the acts enumerated in paragraphs (1) and (2);

(4) engage in any business in interstate commerce; or

(5) control any company which is engaged in any business in interstate commerce.

The provisions of this subsection shall not apply to transactions of an investment company which are merely incidental to its dissolution.

(b) No depositor or trustee of or underwriter for a unit investment trust, unless such trust is exempted from the provisions of this subsection pursuant to section 6 or effectively registered under section 8, shall directly or indirectly—

(1) offer for sale, sell, or deliver after sale, by use of the mails or any means or instrumentality of interstate commerce, any security or any interest in a security of which such trust is the issuer; or offer for sale, sell, or deliver after sale any such security or interest, having reason to believe that such security or interest will be made the subject of a public offering by use of the mails or any means of instrumentality of interstate commerce;

(2) purchase, redeem, or otherwise acquire or attempt to acquire, by use of the mails or any means or instrumentality of interstate commerce, any security or any interest in a security of which such trust is the issuer; or

(3) sell or purchase for the account of such trust, by use of the mails or any means or instrumentality of interstate commerce, any security or interest in a security, by whomever issued.

(c) No promoter of a proposed investment company, and no underwriter for such a promoter, shall make use of the mails or any means or instrumentality of interstate commerce directly or indirectly, to offer for sale, sell, or deliver after sale, in connection with a public offering, any preorganization certificate or subscription for such a company.

(d) No investment company, unless organized under the laws of the United States or of a State, and no underwriter for a company otherwise organized, shall make use of the mails or any means or instrumentality of interstate commerce, directly or indirectly, to offer for sale, sell, or deliver after sale, in connection with a public offering, any security of which such company is the issuer.

#### REGISTRATION OF INVESTMENT COMPANIES

SEC. 8. (a) Any investment company organized under the laws of the United States or of a State may register for the purposes of this title by filing with the Commission a notification of registration, in such form as the Commission may by rules and regulations prescribe as necessary or appropriate in the public interest or for the protection of investors. An investment company shall be deemed to be registered upon receipt by the Commission of such notification of registration.

(b) It shall be the duty of every registered investment company to file with the Commission, within such reasonable time after registration as the Commission shall fix by rules and regulations or order, an original and such copies of a registration statement, in such form and containing such of the following information and documents, as the Commission shall by rules and regulations or order prescribe as necessary or appropriate in the public interest or for the protection of investors:

(1) a description of the investment and management policies and of the business done and to be done by the registrant, including a designation of—

(A) the class and subclasses of investment company, as defined in or pursuant to sections 4 and 5, within which the registrant falls and within which the registrant proposes to operate in the future;

(B) the activities other than investment in which the registrant is engaged and proposes to engage, such as trading, underwriting, acting as investment adviser, and participating in or influencing the management of companies outstanding securities of which are held by the registrant; and

(C) the characteristics, amounts, and relative amounts of securities and other assets which the registrant has acquired and proposes to acquire in the course of its business;

(2) the information and documents which would be required to be filed in order to register under the Securities Act of 1933 all securities which the registrant is authorized to issue; and

(3) additional pertinent information and documents regarding the registrant, affiliated persons thereof, and underwriters thereof.

(c) In lieu of filing information and documents required pursuant to paragraph (2) of subsection (b), any registrant which has filed a registration statement under the Securities Act of 1933 or the Securities Exchange Act of 1934, which registration statement is currently effective, may file—

(1) such copies of such registration statement or portions thereof, and such copies of reports theretofore filed by the registrant pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934, as the Commission shall designate by rules and regulations or order; and

(2) a report containing such current information and documents, regarding the matters included in such registration statement and reports, as the Commission shall prescribe by rules and regulations or order as necessary or appropriate in the public interest or for the protection of investors.

(d) Whenever the Commission, on its own motion or upon application, finds that a registered investment company has ceased to be an investment company, it shall so declare by order and upon the taking effect of such order the registra-

tion of such company shall, upon such terms and conditions as the Commission finds and in such order prescribes as necessary for the protection of investors, cease to be in effect. The Commission's denial of any application under this subsection shall be by order.

REGISTRATION OF CERTAIN AFFILIATED PERSONS AND UNDERWRITERS

SEC. 9. (a) It shall be unlawful for any person, unless registered under this section, to serve or act in any of the following capacities for a period exceeding sixty days:

(1) as officer, director, manager, or investment adviser of or for a registered management investment company or registered face-amount certificate company;

(2) as depositor, manager, or investment adviser of or for a registered unit investment trust;

(3) as principal underwriter for a registered open-end management investment company, registered unit investment trust, or registered face-amount certificate company; or

(4) as a distributor who makes use of the mails or any means or instrumentality of interstate commerce to engage in the business of selling periodic payment plan certificates, or as a salesman for such a distributor.

(b) Any person whose registration under this section is required solely because such person is an investment adviser for a registered investment company shall be deemed registered under this section so long as such person is registered under section 204 of title II of this Act.

(c) Any of the persons enumerated in subsection (a), and any person who presently contemplates becoming such an officer, director, manager, investment adviser, depositor, principal underwriter, distributor, or salesman may be registered under this section by filing with the Commission an application for registration. Such application shall contain such information and documents, in such form and such detail, as to such person and affiliated persons of such person as the Commission may by rules and regulations prescribe as necessary or appropriate to effectuate the purposes of this title. Except as hereinafter provided, such registration shall become effective thirty days after receipt of such application by the Commission, or within such shorter period of time as the Commission may determine. Any amendment of an application filed not more than fifteen days after the filing of such application shall be deemed to have been filed with and as a part of such application. Any amendment of an application filed more than fifteen days after the filing of such application shall be deemed a new application incorporating by reference the unamended items of the earlier application.

(d) The Commission shall by order deny registration to, or revoke or suspend the registration of, an applicant under this section, if the Commission finds that such denial, revocation, or suspension is in the public interest and that--

(1) the applicant, within ten years of the issuance of such order, has been convicted of any felony or misdemeanor involving the purchase or sale of any security or arising out of the applicant's conduct as an underwriter, broker, dealer, or investment adviser, or as an affiliated person, salesman, or employee of any investment company, bank, or insurance company;

(2) the applicant, at the time of the issuance of such order, is permanently or temporarily enjoined by order, judgment, or decree of any court of competent jurisdiction from acting as an underwriter, broker, dealer, or investment adviser, or as an affiliated person, salesman, or employee of any investment company, bank, or insurance company, or from engaging in or continuing any conduct or practice in connection with any such activity or in connection with the purchase or sale of any security;

(3) the application, as amended, omits any material fact required to be stated therein; or

(4) the applicant has willfully violated section 34 (b), of this title, or that portion of section 203 of title II of this Act which incorporates the provisions of said section 34 (b).

(e) The commencement of a proceeding to deny registration under this section shall operate to postpone the effective date of registration pending final determination of such proceeding.

## AFFILIATIONS INVOLVING CONFLICTS OF INTEREST

SEC. 10. (a) After one year from the effective date of this title, no registered investment company shall have a board of directors or an executive committee more than a minority of the members of which consists of—

- (1) affiliated persons of any one company other than such registered company; or
- (2) persons who regularly act as manager, investment adviser, broker, or principal underwriter of or for such registered company, or affiliated persons of such persons.

(b) Notwithstanding subsection (a), more than a minority of the members of such a board or committee may consist of persons whose only common affiliation (except with such registered company) is with—

- (1) an investment company in the same investment company system with such registered company;
- (2) a bank, if each such person was a member of such board or committee on the effective date of this title; or
- (3) an investment adviser registered under section 204 of title II of this Act, if (A) such investment adviser is engaged in no business other than that of an investment adviser; (B) the sales load on securities issued by such registered company does not exceed 1 per centum of the price to the public; (C) such registered company has no manager other than such investment adviser, and such investment adviser does not receive a management fee exceeding one-half of 1 per centum per annum of the value of such company's net assets averaged over the year or taken as of a definite date within the year; (D) all expenses of such registered company, excepting only taxes and brokerage expenses, are paid by such investment adviser; and (E) at least one-third of the members of the board of directors and of the executive committee of such registered company are persons other than such investment adviser or affiliated persons of such investment adviser.

(c) After one year from the effective date of this title, no registered investment company shall have as director any person who is an investment banker, a broker, or an affiliated person of an investment banker or broker, if such person is a director, officer, or manager of an investment company which is not in the same investment company system with such registered company.

(d) After one year from the effective date of this title, it shall be unlawful for any of the following persons to serve or act as investment officer or manager of a registered investment company:

- (1) any officer or manager of an investment company which is not in the same investment company system with such registered company;
- (2) any director or officer of a bank who was not a director or officer of such registered company on the effective date of this title;
- (3) any person who regularly acts as broker for such registered company;
- (4) if such registered company is an open-end management investment company, any principal underwriter therefor; or
- (5) any affiliated person of any of the foregoing.

No provision of this subsection shall be construed to prohibit a person from serving or acting as investment officer, manager, broker, or principal underwriter of or for an investment company, merely because such person, though not a manager of any other investment company, is an investment adviser of another such company.

(e) After one year from the effective date of this title, it shall be unlawful for any director or officer of a registered investment company to serve or act as director or officer of an issuer any outstanding security of which is owned by such registered company, if—

- (1) such registered company owns less than 5 per centum of the outstanding voting securities of such issuer; or
- (2) such director or officer is an investment banker, a broker, or an affiliated person of an investment banker or broker.

(f) It shall be unlawful for any director or officer of a registered investment company, or any investment banker or broker of which such a director or officer is an affiliated person, to serve or act as principal underwriter for any issuer of which such registered company owns more than one-half of 1 per centum of any class of securities outstanding.

(g) No registered investment company shall purchase or otherwise acquire any security a principal underwriter of which is a director, officer, or manager of such company, or is an investment banker or broker of which such a director, officer, or manager is an affiliated person, unless—

(1) in acquiring such security such registered company is itself acting as a principal underwriter for the issuer; or

(2) such security was first offered to the public by the issuer or by or through an underwriter more than one year prior to such acquisition.

(h) Any reciprocal arrangement for the purpose of evading the provisions of subsection (d) or (f) shall be deemed a violation of this title by the persons concerned, and if such arrangement is known to the registered investment company concerned, a violation of this title by such company.

(i) In the case of a registered management investment company which is an unincorporated company not having a board of directors, the provisions of this section, instead of applying to such company and affiliated persons thereof, shall apply, respectively, to every depositor or manager of such company and to affiliated persons of such depositor or manager.

#### RECURRENT PROMOTION OF INVESTMENT COMPANIES

SEC. 11. (a) It shall be unlawful for any promoter of a registered investment company organized on or after March 1, 1940, to serve or act as director, officer, manager, investment adviser, depositor, trustee, or principal underwriter of or for such company, if within five years such person, or any company of which such person was then an affiliated person, has been a promoter of another investment company.

(b) It shall be unlawful for any promoter of a registered investment company organized on or after March 1, 1940, to serve or act as investment adviser of or principal underwriter for such company if at the same time such person, or any company of which such person is an affiliated person, is serving or acting as officer, manager, investment adviser, depositor, or principal underwriter of or for another registered investment company.

(c) No registered investment company (other than a face-amount certificate company) shall issue any security (other than short-term paper) representing an interest in or claim against only a class of the issuer's assets, unless such class of assets was created, and securities representing interests exclusively in or claims exclusively against such class were offered and sold to the public prior to March 1, 1940.

(d) Upon application by a registered investment company, or by a promoter of a registered investment company or of a proposed investment company, the Commission shall by order conditionally or unconditionally exempt such company or promoter from a provision or provisions of this section, if the Commission finds that such exemption is consistent with the purposes of this title. In considering such application the Commission shall give due weight to the organization and practices of the company concerned, the history and practices of any promoter concerned, the history and practices of the investment companies with which such promoter has been associated, and the possibility that the granting of such application will subject such company or promoter to conflicting duties or interests.

#### FUNCTIONS OF INVESTMENT COMPANIES; FORMATION OF INVESTMENT COMPANY SYSTEMS

SEC. 12. (a) It shall be unlawful for any registered investment company—

(1) to purchase any security on margin or credit (except such short-term credits, necessary for the clearance of transactions, as the Commission may designate by rules and regulations or order);

(2) to participate on a joint or a joint and several basis in any trading account in securities;

(3) to effect a short sale of any security, in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors; or

(4) to act as a dealer in or distributor of securities of which it is the issuer, in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors.

(b) It shall be unlawful for any diversified investment company to act as underwriter, whenever the amount of its outstanding underwriting commitments, plus the value of its investments in securities other than marketable securities and in securities of issuers of which it owns more than 5 per centum of any class of securities outstanding, exceeds 15 per centum of the value of its total assets.

(c) It shall be unlawful for any registered investment company to purchase or otherwise acquire any security issued by, or any other interest in the business of—

(1) any other investment company, except (A) in connection with a plan of reorganization or offer of exchange for which a declaration is effective under section 25, or (B) with the proceeds of payments on periodic payment plan certificates, pursuant to the terms of the trust indenture under which such certificates are issued; or

(2) any person who is a broker, dealer, underwriter, manager, or investment adviser, unless (A) such person is a corporation all of the outstanding securities of which (other than short-term paper) are, or after such acquisition will be, owned by such registered company; and (B) the business of such person is confined to activities in which such registered company itself may lawfully engage.

#### CHANGES IN INVESTMENT POLICY

SEC. 13. (a) No registered diversified investment company shall become a securities trading company or securities finance company, unless such change is authorized by the vote of a majority of its outstanding voting securities.

(b) No registered investment company shall change any fundamental investment or management policy unless each such change is authorized by the vote of a majority of its outstanding voting securities. The Commission, by rules and regulations or order, shall designate those investment and management policies which are fundamental, giving due weight, among other things, to the representations made in selling the outstanding securities of the company or companies concerned, to the representations made in their registration statements and reports filed under this title and in their reports to security holders, to the history of their investment and managerial policies, and to their financial condition.

#### SIZE OF INVESTMENT COMPANIES

SEC. 14. (a) No registered investment company or principal underwriter therefor shall sell any security of which such company is the issuer (other than short-term paper), if such company has, or upon completing such sale will have, total assets the value of which exceeds the following maxima:

(1) if such company is a diversified investment company or a unit investment trust, \$150,000,000;

(2) if such company is a securities trading or securities finance company, \$75,000,000;

(3) if such company is a face-amount certificate company, \$200,000,000.

(b) The provisions of subsection (a) shall not apply to—

(1) the sale of a security by an open-end management investment company, if the proceeds received by the issuer from all such sales during the fiscal quarter within which such sale is made do not exceed such issuer's total disbursements for redemptions during the same fiscal quarter; or

(2) a sale made pursuant to an offer required by any rule, regulation, or order of the Commission under paragraph (2) of section 19 (a).

(c) No person who regularly serves or acts as manager or investment adviser of a registered investment company, and no affiliated person of such a person, shall enter into, renew, or consent to the renewal of, any contract to receive remuneration for serving or acting as manager or investment adviser of another investment company, if the value of the combined total assets of such companies exceeds the following maxima:

(1) if either of such companies is a securities trading or securities finance company, \$75,000,000;

(2) if both such companies are face-amount certificate companies, \$200,000,000;

(3) under any circumstances other than those described in paragraphs (1) and (2), \$150,000,000.

(d) No registered investment company organized after March 1, 1940, and no principal underwriter for such a company, shall make a public offering of securities of which such company is the issuer, unless—

- (1) such company has a net worth of at least \$100,000; or
- (2) such company has previously made a public offering of its securities, and at the time of such offering had a net worth of at least \$100,000.

COMPENSATION OF MANAGEMENT; MANAGEMENT AND UNDERWRITING CONTRACTS

SEC. 15. (a) After one year from the effective date of this title, it shall be unlawful for any person regularly to serve or act as officer, director, manager, investment adviser, or employee of any registered investment company, unless such person's compensation from such company is determined on one or more of the following bases, and no other:

- (1) a definite sum of money per year, month, or other definite period;
- (2) a sum of money representing a definite percentage of such company's income from interest and dividends during a definite period; or
- (3) a sum of money representing a definite percentage of the value of the net assets of such company as of a definite date or averaged over a definite period.

(b) After one year from the effective date of this title it shall be unlawful for any person regularly to serve or act as manager or investment adviser of a registered investment company, except pursuant to a written contract with such company, approved by the vote of a majority of the outstanding voting securities of such company, which contract—

- (1) precisely describes all compensation to be paid thereunder;
- (2) by its terms expires not later than two years from the date of its execution, and is renewable thereafter only by the specific approval annually of the board of directors or the security holders of such registered company;
- (3) provides, in substance, that it may be terminated at any time, without the payment of any penalty, by the board of directors of such registered company or by vote of a majority of the outstanding voting securities of such company on not more than sixty days' written notice to the manager or investment adviser; and
- (4) provides, in substance, for its automatic termination in the event of its assignment or attempted assignment by the manager or investment adviser.

(c) After one year from the effective date of this title, it shall be unlawful for any principal underwriter for a registered open-end management investment company or registered unit investment trust to offer for sale, sell, or deliver after sale any security of which such company is the issuer, except pursuant to a written contract with such company which—

- (1) by its terms expires not later than one year from the date of its execution, and is renewable thereafter only by the specific approval annually of the board of directors or of the security holders of such registered company; and
- (2) provides, in substance, for its automatic termination in the event of its assignment or attempted assignment by such underwriter.

(d) It shall be unlawful for any registered investment company having a board of directors to enter into or perform any contract or agreement, written or oral, whereby a person undertakes regularly to serve or act as manager, investment adviser, underwriter, or broker for such company, unless the terms of such contract or agreement have been approved by a majority of such directors, exclusive of any director who is himself a party to such contract or agreement or who is an affiliated person of such a party.

(e) If any registered investment company, or any company controlled by or under common control with such a company, is serving or acting, or proposes to serve or act, as manager or investment adviser of another company or companies in the same investment company system with such registered company, the Commission shall require, by such rules and regulations or orders as it finds necessary or appropriate in the public interest or for the protection of investors, that such manager or investment adviser serve such other company or companies at cost, and that such cost be equitably allocated between and among such registered company and such other company or companies.

## CHANGES IN BOARD OF DIRECTORS

SEC. 16. No person shall serve as director of a registered investment company unless elected to that office by the holders of the outstanding voting securities of such company, at the annual or a special meeting of such security holders duly called for that purpose; except that vacancies occurring between such meetings, not exceeding in the aggregate one-third of the whole number of the board of directors, may be filled in any otherwise legal manner.

## TRANSACTIONS OF CERTAIN AFFILIATED PERSONS AND UNDERWRITERS

SEC. 17. (a) It shall be unlawful for any affiliated person of or principal underwriter for a registered investment company, or any affiliated person of such a person or underwriter, acting as principal--

(1) knowingly to sell any security or other property to such registered company or an affiliated company thereof (unless such sale consists solely of (A) the redemption of redeemable securities by their issuer, or (B) the deposit of securities with the trustee of a unit investment trust or periodic payment plan by the depositor thereof);

(2) knowingly to purchase from such registered company or any affiliated company thereof any security or other property (except securities of which the seller is the issuer);

(3) to borrow money or other property from such registered company or an affiliated company thereof (unless the borrower is controlled by the lender); or

(4) to effect any transaction in which such registered company or an affiliated company thereof is a joint or a joint and several participant with such person, underwriter, or affiliated person, in contravention of such rules and regulations as the Commission may prescribe for the purpose of (A) limiting or preventing participation by such company on a basis different from or less advantageous than that of such other participant, and (B) protecting the independent investment and managerial judgment of such company.

(b) Notwithstanding subsection (a), a company which controls or is controlled by a registered investment company or which, with such registered company, is under the common control of another company, may file with the Commission an application for an order exempting a proposed transaction of the applicant from one or more provisions of that subsection. The Commission shall grant such application and issue such order of exemption if it find that--

(1) the terms of the proposed transaction, including the consideration to be paid or received, are reasonable and fair and do not involve overreaching on the part of any person concerned;

(2) the proposed transaction is consistent with the investment and management policies of each registered investment company concerned as recited in its registration statement and reports filed under this title; and

(3) the proposed transaction is consistent with the purposes of this title.

(c) Notwithstanding subsection (a), a person may sell merchandise in the ordinary course of business to any affiliated company of a registered investment company if such affiliated company is not itself an investment company.

(d) It shall be unlawful for any affiliated person of a registered investment company, or any affiliated person of such a person--

(1) acting as agent, to accept from any source any compensation (other than a regular salary or wages from such registered company) for the purchase or sale of any property to or for such registered company or any affiliated company thereof, except in the course of such person's business as an underwriter or broker; or

(2) acting as broker, to sell any security to or for such registered company or any affiliated company thereof, if such person receives from any source a commission, fee, or other remuneration for effecting such transaction which exceeds the usual and customary broker's commission for effecting similar transactions on a national securities exchange.

(e) Any gross misconduct or gross abuse of trust in respect of a registered investment company, on the part of any person registered under section 9 as an affiliated person of or principal underwriter for such company, shall be unlawful.

(f) After one year from the effective date of this title, it shall be unlawful for the charter, certificate of incorporation, articles of association, bylaws, or trust

indenture of any registered investment company, for any employment management, underwriting, or brokerage contract or agreement to which such a company is a party, or for any other instrument pursuant to which such a company is organized or administered, to contain any provision which—

(1) authorizes, or purports to authorize, the violation of any provision of this title or of any rule, regulation, or order hereunder; or

(2) relieves, or purports to relieve, any affiliated person or principal underwriter for such company from any duty or liability to such company or the security holders thereof to which such person or underwriter would otherwise be subject.

(g) The Commission is authorized to require, by rules and regulations or order in the public interest or for the protection of investors—

(1) that securities and other investments of a registered management investment company be placed in the custody of an institution having the qualifications required by paragraph (1) of section 26 (a) for the trustees of unit investment trusts; and

(2) that any person or class of persons registered under section 9 be required to be bonded by a reputable fidelity insurance company in such minimum amount as the Commission may prescribe.

(h) Every person registered under section 9 as a distributor of periodic payment plan certificates shall be subject, in his transactions with the issuer of such certificates, to the same duties and liabilities as those imposed by this section upon affiliated persons of registered investment companies in their transactions with such companies.

#### CAPITAL STRUCTURE

SEC. 18. (a) It shall be unlawful for any registered management investment company to issue any security (other than short-term paper or periodic payment plan certificates), or to sell any such security of which it is the issuer, unless such security—

(1) is a common stock, or if such company is an unincorporated company organized prior to March 1, 1940, is a security having substantially the same incidents as the common stock of a corporation;

(2) has no preference as to distribution or dividends over any outstanding security of such company;

(3) is a voting security, and has equal voting rights with every voting security of such company issued since the effective date of this title; and

(4) if not a redeemable security, expressly provides that the holder thereof shall be given a reasonable opportunity, with other holders of the company's voting securities, to subscribe for and purchase ratably any voting securities which the company may thereafter issue, before such securities are sold to any other person or persons.

If such company is an unincorporated company organized prior to March 1, 1940, the Commission shall designate, by rules and regulations or order in the public interest and for the protection of investors, those incidents which such security must have in order substantially to comply with the requirements of this subsection.

(b) The provisions of paragraphs (1) and (2) of subsection (a) shall not apply to the issuance or sale of a preferred or special stock if the only other outstanding class of the issuer's equity securities consists of a common stock upon which no dividend (other than a liquidating dividend) is permitted to be paid and which in the aggregate represents not more than one-half of 1 per centum of the issuer's outstanding voting securities.

(c) It shall be unlawful for any registered management investment company to issue any warrant or right to subscribe to or purchase a security of which such company is the issuer, except—

(1) in the form of warrants or rights to subscribe expiring not later than one hundred and twenty days after their issuance and issued exclusively and ratably to a class or classes of such company's security holders; or

(2) in the form of periodic payment plan certificates.

(d) After two years from the effective date of this title, the Commission shall, upon application by the holder of any outstanding security of a registered management investment company, and may upon its own motion, require by order that