



## California Corporate & Securities Law

# What You Can Do When Securities Are Subject To A Commissioner's Transfer Restriction

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As a condition to qualification, the Commissioner of Corporations may impose a restriction on the subsequent transfer of the securities being qualified. Cal. Corp. Code § 25141. Rule 260.141.10 describes the general circumstances under which the Commissioner will impose a transfer restriction. The imposition of a transfer restriction was a far more common occurrence in the "old days" when there were fewer exemptions from qualification and more issuers needed to qualify the offer and sale of their securities. Nonetheless, a long-ago imposed condition can become a current problem when a security holder decides to dispose of the securities.

Rule 260.141.12 establishes the conditions under which the Commissioner will order the removal of transfer restrictions. Before doing so, the Commissioner must find that the circumstances no longer require the restriction and that subsequent transfers are not likely to be unfair, unjust or inequitable.

To request removal of a transfer restriction, the issuer must submit an application on the form specified by Rule 260.141.50. The application is not too challenging and the fee is a nominal \$50. The key, of course, is to provide adequate justification for the removal of the restriction. This requires an understanding why the Commissioner imposed the restriction and an explanation of how circumstances have changed.

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