FACT-CHECK MEMORANDUM

Broker-dealer registration risk claims

Northbridge Property Partners hypothetical | Checked through September 8, 2026

Purpose: audit the legal propositions, currentness, authority status, and wording used in the white paper and executive brief. This memorandum is not legal advice and does not substitute for jurisdiction-specific counsel.

Executive verification result

The central conclusion is supportable if phrased as a high-confidence risk assessment rather than an adjudicated fact: an organized program of unregistered outsiders who target and persuade investors and receive 7% of funded capital presents severe Section 15(a) risk. The weakest common formulation - 'any success fee automatically makes someone a broker' - has been expressly avoided. The paper also avoids saying that Regulation D, accredited status, an LLC payee, delayed payment, equity compensation, or the 2020 finder proposal creates a safe harbor. SEC Guide to Broker-Dealer Registration; SEC v. Feng, 935 F.3d 721 (9th Cir. 2019); SEC v. Collyard, 861 F.3d 760 (8th Cir. 2017); SEC v. Kramer, 778 F. Supp. 2d 1320 (M.D. Fla. 2011); SEC, Proposed Finders Exemptive Order, Exchange Act Release No. 90,112 (Oct. 7, 2020).

Claim ledger

Class	Claim	Result	Required qualifier	Support
A	Broker definition and registration gate	Accurate	Statutory text current on research date	§§ 78c(a)(4), 78o(a)(1)
A/B	Reg D exemption does not itself exempt a placement agent	Accurate	Offering and intermediary regimes are separate	SEC registration guide
B/C	Transaction-based pay is a strong or hallmark indicator	Accurate with qualifier	Not mechanically dispositive; totality controls	SEC guide; Feng; Kramer
A	Rule 3a4-1 is nonexclusive and has threshold plus branch conditions	Accurate	Failure creates no presumption of violation	17 C.F.R. § 240.3a4-1
A/D	Outside capital partners are unlikely to fit Rule 3a4-1	Strong application	Depends on actual status, pay, and activity	Rule text + stated facts
B	2020 finder proposal is not operative	Accurate	Proposal not adopted; 2026 committee sought action	SEC proposal; 2026 recommendation
A/D	M&A exemption does not fit passive LP capital raise	Strong application	Statute addresses qualifying control transfer	§ 78o(b)(13)
B	FINRA Rule 2040 restricts member payments	Accurate	Do not describe as direct issuer prohibition or universal status test	FINRA 2040
B/C/D	Paying an LLC or delaying payment does not reliably cure	Qualified inference	Substance, distinct entity, and actual conduct matter	SEC guide; Feng; EdgePoint
C	Fee contract may be unenforceable under § 29(b)	Accurate with conditions	Not automatic; directness, privity/class, and equities matter	EdgePoint; Regional; Berckeley
A/B	SEC can seek injunctions, penalties, disgorgement, bars	Accurate with forum caveat	Each remedy has authority and conditions	§§ 78u(d), 78u-3; SEC process
A/B	Current penalty ceilings	Verified	Per violation; greater-of-gain alternative; tier predicates	SEC table; Release 33-11428
A/C	Criminal exposure requires willful violation	Accurate	Do not equate lack of precise legal knowledge with innocence	§ 78ff(a); Tarallo
D	Future financing/diligence complications	Reasonable inference	Operational consequence, not automatic legal remedy	Deal-practice inference
D	Phase 1 fixed internal consulting is lower risk	Reasonable inference	Only if actual work stays outside investor sales channel	Factor framework

High-risk wording to avoid

Avoid	Use instead
A success fee makes the recipient a broker.	A success fee is a strong indicator; status depends on the totality of activity, regularity, and economics.
Reg D permits finders to sell to accredited investors.	Reg D may exempt the offering, but it does not itself exempt a person from broker registration.
Rule 3a4-1 is the issuer exemption.	Rule 3a4-1 is a nonexclusive safe harbor for qualifying natural persons associated with an issuer.
The SEC adopted a finder exemption in 2020.	The SEC proposed a finder exemption in 2020 but did not adopt it.
An LLC or equity payment avoids commission rules.	Payee and payment form are relevant facts, but economic substance and actual activity control.
Using an unregistered finder automatically gives every investor rescission.	Unregistered activity can create rescission and contract risk, but rights and remedies depend on the claim, parties, facts, jurisdiction, and defenses.
The issuer is automatically liable for the finder's conduct.	Issuer and principal exposure requires proof of the applicable causing, control, indirect-action, aiding, or other theory.
A registration mistake is a felony.	Section 32 criminal liability requires a willful violation, prosecution, and conviction; the statutory maximum is not a likely sentence.

Authority hierarchy and status checks

A - Binding The statutory and rule propositions are anchored in current U.S. Code and eCFR text. Rule 3a4-1's nonpresumption clause and the narrow M&A statute were checked because they are commonly omitted.

B - Official but nonbinding or fact-limited SEC web guidance is official interpretive/compliance material, not a statute. Brumberg is staff no-action correspondence. Ranieri is a settlement. The 2020 finder order is proposed. The 2026 committee recommendation is advisory. Each is labeled accordingly.

C - Cases Feng is controlling in the Ninth Circuit; Collyard in the Eighth; EdgePoint in the First; Regional Properties in the historical Fifth Circuit territory subject to later circuit doctrine; Berckeley in the Third. Kramer is a federal district-court decision. The paper does not present any one case as a national bright-line test.

D - Application Risk ratings, cosmetic-variant analysis, control design, and diligence consequences are reasoned applications. They are identified as such and should be re-evaluated against actual communications, compensation records, jurisdiction, and offering history.

Consequences audit

- Civil penalties: current figures are described as ceilings, per violation, and subject to the greater-of-gain alternative and tier prerequisites. SEC, Civil Monetary Penalty Inflation Adjustments; SEC Release No. 33-11428 (July 1, 2026); 15 U.S.C. § 78u(d).
- Disgorgement: described as potentially available, not automatic; statutory Section 21(d)(7) and Liu are both noted. 15 U.S.C. § 78u(d); Liu v. SEC, 591 U.S. 71 (2020).
- Bars and suspensions: described as possible administrative or collateral outcomes; the settled Ranieri facts are not generalized as mandatory sanctions. SEC, How Investigations Work; SEC, Ranieri Partners Press Release No. 2013-36 (Mar. 11, 2013).
- Contract consequences: described as potential voidability or nonenforcement, not automatic nullity of every agreement. 15 U.S.C. § 78cc(b); EdgePoint Capital Holdings, LLC v. Apothecare Pharmacy, LLC, No. 20-1810 (1st Cir. July 23, 2021); Berckeley Investment Group, Ltd. v. Colkitt, 455 F.3d 195 (3d Cir. 2006).
- Rescission: described as a litigation risk whose source and elements must be identified, not an automatic Section 15(a) remedy. SEC, Broker-Dealers (updated Apr. 24, 2026); Regional Properties, Inc. v. Financial & Real Estate Consulting Co., 678 F.2d 552 (5th Cir. 1982).

- Criminal: willfulness, prosecution, conviction, and statutory-maximum caveats included; the cited case concerns fraud and is used only for mental-state nuance. 15 U.S.C. § 78ff(a); United States v. Tarallo, 380 F.3d 1174 (9th Cir. 2004), amended, 413 F.3d 928 (9th Cir. 2005).
- Issuer/principal: no automatic attribution; Section 20 and Ranieri are used to identify possible theories and fact patterns. 15 U.S.C. § 78t; In re Ranieri Partners LLC, Exchange Act Release No. 69,091 (Mar. 8, 2013).

Jurisdictional and factual open items

Open item	Why it matters	Required follow-up
Offering exemption	Rule 506(b) and 506(c) have different solicitation and verification conditions	Confirm pathway, materials, legends, Form D, and communications
Issuer/entity structure	Broker and Rule 3a4-1 analysis can depend on issuer, GP, manager, and related entities	Map legal entities and associated-person relationships
Participant history	Prior broker association, other issuer sales, and regularity affect analysis	Obtain CRD/background and activity certifications
Actual communications	Labels cannot substitute for conduct	Review email, text, decks, scripts, recordings, CRM, and meeting notes
Payment economics	Indirect, contingent, noncash, deferred, or routed value may matter	Trace entitlement, valuation, vesting, payee, and source
States	Broker/agent/finder rules and civil remedies vary	Perform jurisdiction-by-jurisdiction analysis
Existing outreach	Remediation, disclosure, payment, and privilege strategy are fact-sensitive	Preserve records and obtain privileged advice promptly

Verification conclusion

No source reviewed supports a generally available federal pathway for Northbridge to pay unregistered outside solicitors 7% of funded Regulation D subscriptions while they perform the described investor-facing work. The central severe-risk conclusion is supported by statutory text, current SEC guidance, adverse staff evidence, and appellate factor analysis. The paper preserves genuine uncertainty where the law is multifactor, remedies are conditional, authority is nonbinding, or the record is incomplete.

Before operational use, U.S. securities counsel should confirm current federal law, controlling circuit precedent, the offering exemption, the participants' status and history, all relevant state regimes, and the facts in the actual engagement documents and communications.