

HOUSE BILL REPORT

HB 2245

As Passed House
February 9, 1994

Title: An act relating to providing bond call notification.

Brief Description: Providing for bond call notification.

Sponsors: Representatives Padden, Zellinsky, Mielke, Horn, Dyer and Long.

Brief History:

Reported by House Committee on:

Financial Institutions & Insurance, January 27, 1994, DP;
Passed House, February 9, 1994, 94-0.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 14 members:
Representatives Zellinsky, Chair; Scott, Vice Chair; Mielke,
Ranking Minority Member; Dyer, Assistant Ranking Minority
Member; Anderson; Dellwo; Dorn; Grant; Kessler; Kremen;
R. Meyers; Schmidt; Tate; and L. Thomas.

Minority Report: Do not pass. Signed by 1 member:
Representative R. Johnson.

Staff: Charlie Gavigan (786-7340).

Background: The securities industry is regulated by both the federal and state governments. The present system of regulation relies on: (1) statutory registration and disclosure requirements on the issuance of securities to provide reliable information to the marketplace; (2) supervision of securities markets; and (3) licensing and supervision of brokers/dealers, advisors and other salespersons. Generally, the Securities and Exchange Commission regulates large, national securities offerings and the various stock exchanges, while the state regulates smaller, intra-state securities offerings and licenses brokers/dealers, advisors and other salespersons who transact business in Washington State.

A bond is a debt obligation issued to raise funds for the issuer of the bond; interest is paid to the bondholder periodically until the maturity date, when the bondholder is repaid. Occasionally, particularly when interest rates

decline, issuers may redeem, or "call," the bond earlier than its maturity date. The usual method of bond call notification is by regular mail. In the event the bondholder does not submit the bond for redemption (pay-off) when this early call occurs, the bondholder ceases receiving interest on the bond after the date of early redemption.

Federal and state law do not specifically regulate the manner in which bond call notification is given.

Summary of Bill: An issuer of a bond that intends to redeem (pay-off) a bond early, for bondholders whose address of record is in Washington State, must: (1) send the notice in a timely manner; and (2) send a second notice by registered mail if the bondholder does not submit the bond for redemption within thirty days of the date the bond ceases to pay interest (the redemption date).

A bond issuer who fails to provide the required notices is liable for the interest due the bondholder from the redemption date until proper notice is given or until the maturity date of the bond, whichever is earlier.

Fiscal Note: Requested January 27, 1994.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: Small investors who hold their own bonds, often retired people, sometimes do not get the bond call notice or do not realize its importance. This is not a problem for most investors, who have a stock broker to manage their securities investments. But requiring a little additional notice for the few people who do not redeem their bonds can solve this problem for the unsophisticated small investor.

Testimony Against: This bill could cost bond issuers more for additional notice and possible liability for improperly giving the bond call notice. Investors should be responsible for managing their investment.

Witnesses: Representative Mike Padden, prime sponsor (supports); and Tim Kerr, Office of the State Treasurer (neutral with concerns).