

SENATE BILL REPORT

SB 5184

AS REPORTED BY COMMITTEE ON WAYS & MEANS, FEBRUARY 8, 1994

Brief Description: Creating a securities brokers recovery account program.

SPONSORS: Senator Moore

SENATE COMMITTEE ON LABOR & COMMERCE

Majority Report: That Second Substitute Senate Bill No. 5184 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Moore, Chairman; Prentice, Vice Chairman; Amondson, Deccio, Fraser, McAuliffe, Newhouse, Pelz, Prince, Sellar, Sutherland, Vognild and Wojahn.

Staff: Blaine Gibson (786-7375)

Hearing Dates: January 28, 1993; February 11, 1993; January 24, 1994; January 31, 1994

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Third Substitute Senate Bill No. 5184 be substituted therefor, and the third substitute bill do pass.

Signed by Senators Rinehart, Chairman; Quigley, Vice Chairman; Bauer, Cantu, Gaspard, Hargrove, Hochstatter, Ludwig, Moyer, Niemi, Pelz, Roach, L. Smith, Snyder, Spanel, Sutherland, Talmadge, Williams and Wojahn.

Staff: Martin Chaw (786-7711)

Hearing Dates: February 7, 1994; February 8, 1994

BACKGROUND:

Some states have enacted recovery account programs for the payment of judgments obtained against certain professionals. For example, a recovery account exists in California for certain judgments obtained against real estate brokers and salespersons. Similarly, the Washington State Bar Association operates a client security program for persons that suffer various losses because of conduct of their attorneys.

Interest has been expressed in establishing a recovery account for clients of securities professionals.

SUMMARY:

The original bill was not considered.

EFFECT OF PROPOSED SECOND SUBSTITUTE:

The securities brokers recovery account is created within the Department of Licensing.

An aggrieved client may recover from the account by following a prescribed application procedure. Payment from the account is only available to persons who have received a judgment or finding from a court or arbitrator based upon the security professional's fraud, deceit, misrepresentation, or conversion of trust funds. For causes of action occurring after January 1, 1990, the maximum amount that can be recovered is \$25,000 per transaction and \$150,000 per registered person.

If payment is made from the recovery account, the department automatically suspends the security professional's registration. A person having his or her registration suspended cannot reinstate the registration until the person repays the amount paid from the account on his or her behalf plus interest.

The account is funded by annual fees paid by persons registered under Washington's Securities Act. The fee will be \$25.

The director is given authority to lower the fee when the recovery account has more than \$500,000 on June 30 of any year.

Penalties are imposed upon persons who file a false or untrue statement, notice, or document.

EFFECT OF PROPOSED THIRD SUBSTITUTE:

The securities broker recovery account is established as an appropriated account. A null and void clause is added, making this act contingent upon funding provided in the budget by June 30, 1994.

Appropriation: none

Revenue: yes

Fiscal Note: available

Effective Date: January 1, 1995

TESTIMONY FOR: None

TESTIMONY AGAINST: None

TESTIFIED: No one