

HOUSE BILL REPORT

HB 2975

As Reported by House Committee On:
Financial Institutions & Insurance

Title: An act relating to exempt transactions under the securities act of Washington.

Brief Description: Granting an exemption under the state securities act.

Sponsors: Representatives Newhouse, Kirby and Dunn.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 1/26/06 [DP].

Brief Summary of Bill

- Adds an additional exception to the nontransferable provision regarding exempt transactions by a mutual or cooperative association in transactions exempt from the State Securities Act. The additional exception is a transfer by gift to a nonprofit entity.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 11 members: Representatives Kirby, Chair; Ericks, Vice Chair; Roach, Ranking Minority Member; Tom, Assistant Ranking Minority Member; Newhouse, O'Brien, Santos, Serben, Simpson, Strow and Williams.

Staff: Jon Hedegard (786-7127).

Background:

The Department of Financial Institutions (DFI), through its Securities Division, is responsible for the regulation of the securities market in this state. The mission of the Securities Division is to protect Washington residents from dishonest or fraudulent practices by people selling investments. The Securities Division utilizes a variety of regulatory and enforcement tools, including:

- registration requirements for securities, franchise and business opportunity offerings;
- licensing and examination of broker-dealers and investment advisers; and
- investigations based upon complaints.

The State Securities Act is Chapter 21.20 RCW. The chapter requires registration of people involved in certain practices, including broker-dealers, salespersons, investment advisers, and

investment adviser salespersons. The chapter requires the registration of certain offerings. Additionally, certain offerings are defined as "securities" and must be registered.

There are exemptions from registration for certain securities. Additional provisions exempt both a specified transaction and the persons involved in the transaction from registration, notice, filing and fee requirements.

One such exempt transaction is a transaction by a mutual or cooperative association that:

- meets certain conditions regarding advertising;
- involves an instrument or interest related to a member or patron of the association; and
- the instrument or interest is nontransferable or meets a specific exception.

The specific exceptions to the nontransferable requirement are:

- death;
- operation of law;
- bona fide transfer for security purposes only to the association, a bank, or other financial institution;
- intra-family transfer; or
- transfer to an existing member or person who will become a member.

Summary of Bill:

The bill adds an additional exception to the nontransferable provision regarding exempt transactions by a mutual or cooperative association. The additional exception is a transfer by gift to a nonprofit entity.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: This bill allows members of a cooperative to donate equity to a non-profit group. The board of our cooperative discussed this and believes that our members, particularly our older members, should have this option. An example of how this may work is a farmer may want to donate their small interest in our cooperative to Washington State University for agricultural research. There are three things that must happen for the farmer to be able to do so. First, this bill needs to pass. Second, the cooperative must agree to allow it. This is permissive; it is not required. Third, the person must decide to make the gift. The value of an instrument or interest can vary. If the cooperative makes a profit, it may return a portion to members and use a portion for capital investment. The members may receive an interest in the capital investment. At some point, the cooperative may purchase that interest back from the member.

Testimony Against: None.

Persons Testifying: Rep. Newhouse, prime sponsor; and Dan Coyn, Washington State Council of Farmer Cooperatives.

Persons Signed In To Testify But Not Testifying: None.