

SENATE BILL REPORT

SB 5375

As Passed Senate, February 28, 2011

Title: An act relating to the department of financial institutions' regulation of trust companies.

Brief Description: Allowing trust companies to be organized as, or convert to, limited liability companies under certain conditions.

Sponsors: Senators Hobbs and Benton.

Brief History:

Committee Activity: Financial Institutions, Housing & Insurance: 2/02/11 [DP].
Passed Senate: 2/28/11, 45-0.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Majority Report: Do pass.

Signed by Senators Hobbs, Chair; Prentice, Vice Chair; Benton, Ranking Minority Member; Fain, Haugen and Litzow.

Staff: Edward Redmond (786-7471)

Background: Washington State currently allows many types of businesses to form as Limited Liability Companies (LLCs), or convert to LLCs. A LLC is formed by one or more individuals or entities through a special written agreement, which provides such details as management structure and distribution of profits or loss. LLCs are popular because, similar to a corporation, owners have limited personal liability for the debts and actions of the LLC. LLCs also provide management flexibility and the benefit of pass-through taxation generally applied to partnerships.

Trust companies are corporations other than banks, savings banks, or savings associations that provide fiduciary and wealth management services. The Department of Financial Institutions (DFI) charters, examines, and regulates commercial banks, savings banks, and trust companies. In 2006 banks, bank holding companies, and savings banks were authorized to form or convert to LLCs after obtaining approval from DFI.

A qualified financial institution intending to become an LLC must satisfy various regulatory requirements. Such requirements include, but are not limited to meeting minimum safety and

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soundness standards; prohibiting automatic termination, dissolution, or suspension; and qualifying for insurability of deposits through the Federal Deposit Insurance Corporation.

Summary of Bill: A trust company may form or convert to a LLC after obtaining approval from DFI. Approval is based upon the same conditions set for banks, bank holding companies, and savings banks.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: The bill is designed to correct an anomaly in the law. In 2006 the Legislature adopted a provision that allowed banks, bank holding companies, and savings banks to form as LLCs but omitted trust companies, which are regulated under the same provisions of Title 30 RCW. This is a technical fix which will allow the flexibility of financial institutions in this state similar to what is available in other states. Currently, foreign trust companies that incorporate in Delaware as LLCs are authorized to operate in Washington as an LLC. Whereas a domestic trust company established in Washington is not allowed to form as an LLC. This bill corrects this concern. DFI is in support of the bill. It is a technical amendment that allows trust companies to operate in the same manner as our state-chartered banks.

Persons Testifying: PRO: Karl Ebe, Perkins Coie, LLP; Catherine Mele, Joe Vincent, DFI.