

# SENATE BILL REPORT

## HB 1593

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As Passed Senate, April 4, 2017

**Title:** An act relating to simplifying small securities offerings.

**Brief Description:** Simplifying small securities offerings.

**Sponsors:** Representatives Vick and Kirby.

**Brief History:** Passed House: 2/20/17, 95-2.

**Committee Activity:** Financial Institutions & Insurance: 3/14/17, 3/14/17 [DP].

**Floor Activity:**

Passed Senate: 4/04/17, 49-0.

### Brief Summary of Bill

- Modifies requirements for conducting small securities offerings or crowdfunding.
- Removes authorization for local Associate Development Organizations (ADO) and port districts to qualify as portals for purposes of facilitating small securities offerings.

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## SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** Do pass.

Signed by Senators Angel, Chair; Mullet, Ranking Minority Member; Fain, Fortunato and Hobbs.

**Staff:** Jeff Olsen (786-7428)

**Background:** The Department of Financial Institutions (DFI) regulates the purchase and sale of securities in Washington. Under the Securities Act of Washington, the DFI registers securities offerings, licenses broker-dealers and investment advisers, and investigates complaints. The federal Securities Act of 1933 also requires registration of securities offerings and has limited exemption categories. Legislation enacted in 2014 authorized an exemption from registration for certain small securities offerings. To qualify for the exemption, several criteria must be met including filing an offering through a portal, complying with specific federal exemptions, capping the amount sold to any investor during

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a 12-month period, and providing evidence of residency in Washington. In addition, an issuer must provide a quarterly report to shareholders and the DFI and make the report publicly available.

An ADO or a port district may serve as a portal. Working in collaboration with the DFI, a portal may assist a person seeking exemption from registration under the Securities Act of Washington by offering services it deems appropriate or necessary to meet the criteria for exemption.

**Summary of Bill:** Several changes to the recently adopted small securities offering process are made regarding qualification, reporting, and rulemaking. When conducting a securities offering, an offering must be conducted in accordance with an applicable exemption under the Securities Act of 1933. References to specific federal rules are removed. Small securities offerings may include any type of equity or convertible debt security. The issuer's company may be organized in any state, and investors are not required to provide evidence or certification of residency in Washington. Public, quarterly reports are no longer required and the issuer is required to send its shareholders an annual report no later than 120 days after the end of the fiscal year. The portal assistance process is removed. The cap on an amount an investor may invest does not apply to accredited investors, as defined by the federal Securities Act. A separate rulemaking section is repealed and reconstituted as a subsection in the small securities offering statute.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

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

**Staff Summary of Public Testimony:** PRO: Small businesses need access to capital, and the changes in the bill will simplify the process and make it easier for startups to get the seed funding that they need. The changes in the bill address impediments in the current process while preserving necessary investor protections. Washington's current crowdfunding process is complex and expensive for businesses to use. By streamlining the process, it will encourage entrepreneurs and innovative businesses.

**Persons Testifying:** PRO: Representative Brandon Vick, Prime Sponsor; Joe Wallin, Carney Badley Spellman PS; Daniel Neuman, Carney Badley Spellman PS; Sheri Nelson, Assoc. of WA Business; Bill Beatty, DFI; Joanie Deutsch, TechNet.

**Persons Signed In To Testify But Not Testifying:** No one.