

# SENATE BILL REPORT

## SB 5680

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As of February 13, 2017

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

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

**Sponsors:** Senators Fain and Mullet.

**Brief History:**

**Committee Activity:** Financial Institutions & Insurance: 2/09/17.

**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

**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 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.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

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:** Not requested.

**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: The changes in the bill eliminate several impediments in the current statute while maintaining important investor protections. This is an innovative funding tool for small businesses that have a lack of access to funding, allowing them access to important seed funding. The changes address some of the current problems with the process, including a lack of privacy. There have been some changes at the federal level that are more flexible. The changes in the bill allow Washington to use the new federal rule and allow internet offerings.

**Persons Testifying:** PRO: Bill Beatty, DFI; Faith Anderson, DFI; Sheri Nelson, Assn. of WA Business; Daniel Neuman, Carney Badley Spellman.

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