SENATE BILL REPORT
SB 6131

As of January 15, 2020

Title: An act relating to repealing the debenture company laws from the securities act of Washington.

Brief Description: Repealing the debenture company laws from the securities act of Washington.

Sponsors: Senators Mullet, Hobbs, Short, Wilson, L. and Das; by request of Department of Financial Institutions.

Brief History:
Committee Activity: Financial Institutions, Economic Development & Trade: 1/16/20.

Brief Summary of Bill

- Repeals the state's debenture statutes.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, ECONOMIC DEVELOPMENT & TRADE

Staff: Clint McCarthy (786-7319)

Background: Debentures. A debenture is a type of debt instrument unsecured by collateral. Since debentures have no collateral backing, debentures must rely on the creditworthiness and reputation of the issuer for support. Similar to most bonds, debentures may pay coupon payments. In Washington State, at least 50 percent of debenture securities must have maturity dates of two years or more.

Debenture Companies and the Jumpstart Our Business Startups Act of 2012. Debenture companies are required in the state of Washington to maintain a net worth of at least $200,000 for securities up to $1 million, and must maintain a net worth of 10 percent of the outstanding securities for securities between $1 million and $100 million. One half of the net worth must be held in cash or comparably liquid assets. Every debenture company must report annually on financial and business conditions of the issuer.

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.

In 2012, Congress passed the Jumpstart Our Business Startups (JOBS) Act. The legislation loosened regulations instituted by the Securities and Exchange Commission on small businesses, and created new exemptions form federal securities registration requirements that sidestep state debenture statutes. Washington has not had a debenture company in operation since 2005.

Not-For-Profit Companies. Not-for-profit companies are exempt from registering securities. The security must be offered or sold to persons who, prior to their solicitation, were members of, contributors to, or listed as participants in, the organization. Not-for-profit organizations using unsecured debt to fund social impact investments or church projects are still subject to the debenture company laws with respect to liquidity and net worth for fundraising in Washington.

Summary of Bill: Washington debentures statutes are repealed.

Appropriation: None.

Fiscal Note: Requested on January 9, 2020.

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

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