

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 576 (Delegate Rosenberg)
Economic Matters

Maryland Local Stock Market and Social Stock Exchange Task Force

This bill establishes a Maryland Local Stock Market and Social Stock Exchange Task Force. The task force consists of members of the General Assembly, Executive Branch agencies, and Governor-appointed members of the business and brokerage communities. The Governor must designate the chair of the task force, and the Office of the Attorney General (OAG) must staff the task force. The task force must (1) study the feasibility of establishing a local stock market in the State; (2) study the availability of impact funds to investors in the State, including the potential development of a social stock exchange to increase the number of funds; and (3) make specified findings and recommendations. The task force must report to the General Assembly by October 1, 2016.

The bill takes effect July 1, 2015, and terminates December 31, 2016.

Fiscal Summary

State Effect: Any expense reimbursements for task force members and staffing costs for OAG are assumed to be minimal and absorbable within existed budgeted resources, as discussed below. Revenues are not affected.

Local Effect: The bill does not affect local government operations or finances.

Small Business Effect: None.

Analysis

Bill Summary: The task force must study the feasibility of establishing a local stock market in the State, including (1) the history of local stock markets in the country; (2) other state models for regulating an intrastate stock market; (3) existing exemptions for

broker-dealers and agents in the State; and (4) the potential financial benefit and fiscal impact of establishing a local stock market. The task force must make findings and recommendations regarding (1) establishing a local stock market or social stock exchange and (2) modifying existing State laws and regulations to help the creation or growth of local investment markets, impact funds, and social stock exchanges.

Task force members may not receive compensation but may receive reimbursement for standard travel expenses.

Current Law/Background: According to *The New York Times*, in October 2014, Michigan became the first state to enact a law allowing the modern equivalent of a local stock market. The markets are to be regulated at the state level as broker-dealers and would only deal with Michigan-based investors and securities. Local stock exchanges were common in cities in the nineteenth and early twentieth centuries: from 1863 to 1930, at least 24 local stock exchanges emerged across the country. Member-brokers of local stock exchanges offered shares of native businesses to local investors to facilitate local business growth. The Detroit Stock Exchange, for example, facilitated the growth of the fledgling auto industry in the early 1900s. However, in response to the 1929 stock market crash, the Securities Acts of 1933 and 1934 imposed stringent requirements on publicly traded companies that ultimately had a deleterious effect on local stock exchanges. Companies opted to list on major exchanges like the New York Stock Exchange rather than smaller exchanges; one of the last local stock exchanges closed in 1991.

According to the *Stanford Social Innovation Review*, social stock exchanges are trading platforms listing only social businesses. Investors can buy shares in a social business, similar to the way in which investors purchase shares in for-profit businesses on the traditional stock market. Investors can use social stock exchanges to find a social business that has a mission in accordance with the investor's preference.

State Fiscal Effect: OAG has advised that two additional contractual employees (an assistant Attorney General and a legal secretary) are needed over a five-year period to meet the bill's requirements. However, OAG did not respond to a request for additional information on the task force duties that would be addressed with the additional staff. Given the agency's expertise in this area, the Department of Legislative Services advises that it is likely that OAG can handle the bill's requirements with existing resources. Regardless, any additional resources would only be needed for the duration of the task force.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Office of the Attorney General (Securities Division), *New York Times*, *Stanford Social Innovation Review*, Department of Legislative Services

Fiscal Note History: First Reader - February 24, 2015
min/kdm

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