HB 473

Department of Legislative Services

Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 473 (Delegate Doory)
Economic Matters Judicial Proceedings

Corporations - Investment Companies

This bill, for corporations registered as investment companies under the federal Investment Company Act of 1940, limits liability to the class of stock for which the liability is incurred, not against the corporation generally or another class or series of stock, if: (1) the corporate charter of an investment company creates one or more classes or series of stock; and (2) separate and distinct records are maintained for the series or class and its assets are held and accounted for separately. If those conditions are met, none of the investment company's liabilities generally are enforceable against the assets associated with the separated class or series. The bill also provides that stockholder approval and articles of transfer or share exchange are not required for a transfer of assets by a corporation registered as an open-end investment company under the Investment Company Act of 1940.

The bill is effective June 1, 2003.

Fiscal Summary

State Effect: The bill would not directly affect governmental operations or finances.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Liability among classes or series of stock is not limited for corporations registered as investment companies under the Investment Company Act of 1940.

Stockholder approval and articles of transfer or share exchange are generally required for a transfer of a corporation's assets. However, stockholder approval and articles of transfer or share exchange are not required for: (1) transfer of assets by a corporation in the normal course of business actually conducted or as a distribution; (2) mortgage, pledge, or creation of any other security interest in any or all of the assets of a corporation; (3) exchange of stock shares through voluntary action or under any agreement with the stockholders; or (4) transfer of assets by a corporation to one or more persons if all the person's equity interests are owned by the corporation.

Background: An open-end investment company, commonly called a mutual fund, owns the securities of several corporations and receives dividends on the shares that it holds. Investors purchase mutual fund shares from the fund itself (or through a broker for the fund), but are not able to purchase the shares from other investors on a secondary market, such as the New York Stock Exchange or Nasdaq Stock Market.

Additional Information

Prior Introductions: A provision similar to this bill was contained in SB 123 and HB 388 of 2002 and HB 684 of 2001. SB 123 received an unfavorable report from the Senate Judicial Proceedings Committee. HB 388 and HB 684 passed third reading in the House and received unfavorable reports from the Senate Judicial Proceedings Committee.

Cross File: None.

Information Source(s): Department of Assessments and Taxation, Department of Legislative Services

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ncs/jr

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