

**Department of Legislative Services**  
Maryland General Assembly  
2003 Session

**FISCAL AND POLICY NOTE**

House Bill 1098 (Delegate Love) (By Request)  
Economic Matters

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**Business Regulation - Franchises - Franchisee Audits**

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This bill requires an audit of a franchisee by a franchisor to be conducted by a certified public accountant (CPA) if: (1) the franchisee is a resident of the State; and (2) the franchised business is operated in the State.

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**Fiscal Summary**

**State Effect:** The bill would not materially affect the finances or operations of the Securities Division within the Office of the Attorney General.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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**Analysis**

**Current Law:** Generally, the State does not regulate the relationship between a franchisee and a franchisor once a franchise agreement is entered into, including audits conducted by the franchisor of the franchisee. The State does regulate offers to enter into franchise agreements. Under the Maryland Franchise Registration and Disclosure Law, a person that intends to sell franchises within the State or to a Maryland resident must register the franchise offering with the Securities Commissioner. As part of the registration process, a franchisor must file a disclosure document that discusses all material information necessary for a potential franchisee to make an informed investment decision. A prospective franchisee must receive a copy of the disclosure document at least ten business days prior to the execution of the franchise agreement.

A franchise is an agreement in which the purchaser, upon payment of a fee, is granted the right to engage in the business of offering, selling, or distributing goods or services under a marketing plan or system provided by the franchisor.

**Small Business Effect:** Costs to small business franchisees would increase to the extent franchisors pass along the cost of CPA-performed audits.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Office of the Attorney General (Securities Division); Department of Assessments and Taxation; Department of Labor, Licensing, and Regulation; Department of Legislative Services

**Fiscal Note History:** First Reader - March 14, 2003  
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