

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 741 (Delegate Feldman)
Economic Matters

Corporations and Real Estate Investment Trusts - Directors and Trustees - Duties and Immunity from Liability

The bill alters the duties and immunity from liability of a director of a corporation or a trustee in a real estate investment trust (REIT) and extends the duties and immunity from liability of a director of a corporation to a trustee in a REIT.

The bill takes effect June 1, 2011.

Fiscal Summary

State Effect: The bill does not materially affect State finances or operations.

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

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill defines “act” to include an act, an omission, a failure to act, or a determination not to act and specifies that the statute setting forth the standard of care of a director applies to an individual who is or was a director of a corporation and is acting or acted as a director of a corporation.

The bill specifies that a director is not required to act solely because of (1) the effect the act may have on any transaction or potential transaction involving the corporation; or (2) the amount or type of any consideration that may be offered or paid to stockholders in

any potential acquisition of control or in any other transaction or potential transaction involving the corporation.

The bill also establishes that the statutory duties of a director (1) displace any duties of a director under common law; (2) are the sole source of duties of a director to the corporation or the stockholders of the corporation, whether or not a decision has been made to sell the corporation or enter into any other transaction involving the corporation; and (3) apply to any act of a director, including an act as a member of a committee of the board of directors.

The bill repeals a provision establishing that the duties of a director are enforceable only by the corporation or in the right of the corporation. Uncodified language states that (1) it is the intent of the General Assembly that the changes made by the bill confirm and ratify the duties of directors of a corporation and the immunity from liability of directors in effect before the effective date of the bill; and (2) the repeal reflects the intent of the General Assembly that the determination of whether or not a stockholder may maintain a direct action against a director should be controlled by applicable case law.

Current Law:

Director of a Corporation: A director of a corporation must perform the duties of a director (1) in good faith; (2) in a manner the director reasonably believes to be in the corporation's best interest; and (3) with the care that an ordinarily prudent person in a like position would use under similar circumstances. A person who performs his or her duties in accordance with this standard is immune from liability by reason of being or having been a director. An act of a director is presumed to satisfy this standard.

In performing his or her duties, a director may reasonably rely on any officer or employee of the corporation, a professional such as a lawyer or certified public accountant, or a committee of the board on which the director does not serve. A director is not acting in good faith if he or she has any knowledge concerning the matter in question which would cause such reliance to be unwarranted.

Trustee of a REIT: A shareholder or trustee of a REIT is not personally liable for the obligations of the REIT unless the person's act constitutes bad faith, willful misfeasance, gross negligence, or reckless disregard of the trustee's duties. However, the REIT's declaration may expand or limit the liability of its trustees and officers to the trust to some extent.

REITS and Corporations: The duties of a director of a corporation or a trustee of a REIT do not require them to perform specified actions, including acting or failing to act solely because *either* the effect of the act or failure to act on an acquisition or potential

acquisition of control of the corporation or REIT *or* the amount or type of any consideration that may be offered or paid in an acquisition. Any act of a director or trustee relating to such acquisition is not subject to a higher duty or greater scrutiny than any other act of a director.

A duty of any director of a corporation or trustee of a REIT may not be enforced by any person or entity other than the corporation or in the right of the corporation.

Background: The bill is a result of recommendations by the Corporate Laws Committee of the Business Law Section of the Maryland State Bar Association. According to the committee, it regularly reviews the Corporations and Associations Article in an attempt to clarify unclear provisions and eliminate outdated language.

In *Shenker v. Laureate Education*, 411 Md. 317 (2009), the Court of Appeals held that:

- the directors of a corporation that was purchased in a cash-out merger owed the shareholders common law fiduciary duties of candor and maximization of value in connection with the merger;
- the statute setting forth the duties directors owned when they undertook managerial decisions on behalf of a corporation did not provide the sole source of directorial duties, and other common law duties remained in place; and
- shareholders could sue directors directly for breach of the fiduciary duties of candor and maximization of value in connection with a cash-out merger.

Additional Information

Prior Introductions: None.

Cross File: SB 601 (Senator Raskin) - Judicial Proceedings.

Information Source(s): State Department of Assessments and Taxation, Maryland State Bar Association, Judiciary (Administrative Office of the Courts), Department of Legislative Services

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