

MSBA - Business Law Section -- FAV Written Testimo

Uploaded by: David Cahn

Position: FAV

March 21, 2025

Senator Pamela Beidle, Chair
Senate Finance Committee
3 East Miller Senate Office Building
Annapolis, Maryland 21401

Re: MSBA Business Law Section Council -- House Bill 992 – Favorable

Dear Senator Beidle and Fellow Committee Members:

The Business Law Section Council (the “Section Council”) of the Maryland State Bar Association (the “MSBA”) annually reviews proposed legislation that may affect Maryland businesses. We do so as volunteers interested in the advancement of business regulatory law in Maryland.

The Section Council has reviewed House Bill 0992 “Business Regulation – Maryland Franchise Registration and Disclosure Law – Alterations” (“HB 992”), colloquially titled the Franchise Reform Act, including the third reading of that bill unanimously approved by the House of Delegates on March 17, 2025. Because I have primarily represented clients concerning the franchisor and franchisee relationship for over 25 years, mainly in Maryland, the Section Council’s current Chair Gregory T. Lawrence asked me to submit this letter on the Section Council’s behalf.

The Section Council supports HB 992 for the reasons explained below.

The law as currently constructed is focused on requiring franchisors to provide certain disclosures to franchisees, in the form of an offering prospectus or franchise disclosure document (“FDD”), and requiring that, before selling a franchise to a Maryland Franchisee, a franchisor submit the FDD to the Maryland Securities Commissioner for its review for compliance with FDD preparation guidelines, which is called registration. (The Securities Commissioner is an officer within the Office of the Attorney General.) The registration to sell franchises must be renewed annually.

The bill would direct the Securities Commissioner to establish a pilot program to incentivize existing franchisors to submit their registration renewal applications during the first 30 days of their fiscal year, typically by January 30, as opposed to filing within 30 days of their registration’s expiration date – which is typically during the spring. The spring filing rush, which is related to compliance with the Federal Trade Commission’s Franchise Sales Rule, has resulted in a crush of renewal applications that the Securities Commissioner’s staff must review each spring, frequently resulting in delays in renewal completions. This has caused many complaints about the agency by franchisors nationally, and by their prospective franchisees in Maryland.

The pilot program will permit the franchisors to submit their renewal application after making most updates that are required annually, but before completion of their annual financial statement audit (which, under the FTC Franchise Rule, must be completed within 120 days of the end of the franchisor’s fiscal year). The Securities Commissioner’s staff will review the changes, including those proposed to the standard franchise agreement, and provide comments that will facilitate prompt completion of the

registration process by the end of the first quarter of that fiscal year if the franchisor is responsive to the Commissioner's requests and completes its audit efficiently. However, since not all franchisors will take advantage of the pilot program, it should result in the Securities Division's FDD review workload being spread out more equally during the year, which will improve its efficiency and responsiveness to renewal filings for the benefit of all.

The bill also will make changes for the benefit of franchisees. For the first time, the Franchise Law will address the imbalance of power between franchisees and franchisors within the ongoing relationship, by prohibiting a franchisor from restricting or inhibiting franchisees from associating together for their common benefit "for any lawful purpose" – which could include collectively raising grievances with the franchisor for the franchisees' mutual benefit. Franchisees will have a right to sue for injunctive relief and damages, in Maryland, if the franchisor violates this prohibition. This provision mirrors "free association" laws passed in several other states, including California and Illinois. Franchisee associations have often been a valuable resource for franchisees to curb franchisor initiatives to profit at the franchisees' expense, and to allow franchisees to exercise their collective purchasing power through cooperatives.

Finally, the bill will provide parties with claims for violation of the Franchise Act with more time to enforce their rights under the Franchise Law, by expanding the time in which they can file claims. Currently, a private claim must be brought within 3 years of when the franchisee bought the franchise rights. That limitation has occasionally led to unfairness, particularly for substantial investment franchises for which it sometimes takes 2 or more years to find and develop a location and open for business. However, for smaller investment services franchises, which typically open within 1 year of purchase, the current limitations period is sufficient to permit the franchisee to determine whether it was misled into buying and pursue justice.

The bill will allow the franchisee claimant to file suit by the later of 3 years from when they purchase the franchise rights, or 2 years after the franchised business opened, but not more than 5 years after the franchise sale. This should be sufficient time for franchisees who needed more time to get open to determine whether they have a claim, while not unduly incentivizing other franchisees from delaying pursuit of their claims. The bill also will establish a 5-year limitations period for the Attorney General to pursue claims for violation of the Franchise Law, providing greater certainty to the agency and to franchisors accused of violating the law.

Overall, the bill unanimously passed by the House of Delegates addresses important deficiencies in the Franchise Law and will benefit Maryland franchisees and may approve administrative efficiency for the benefit of all participants in franchising. We commend Delegate Korman for introducing it, and we urge your Committee to report it favorably, without delay, so that it can advance to become law.

Sincerely,



David L. Cahn
Immediate Past Chair
Business Law Section Council

cc: Delegate Korman

Del Korman FAV HB 992 (1).pdf

Uploaded by: Marc Korman

Position: FAV



THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

Franchise Reform Act (HB 992)

Testimony of Marc Korman - Favorable (HB 992)

Thank you Madam Chair, Mr. Vice Chair, and members of the Senate Finance Committee. I come before you today with the Franchise Reform Act (HB 992). Several constituents have reached out to me regarding the current franchise registration process in Maryland. Maryland is one of ten states considered a franchise registration state, indicating the highest level of scrutiny for franchisors seeking to franchise in the state. State oversight is important to protect franchisees from being taken advantage of, but it must be balanced against our economic development goals.

Maryland's franchisors—like those in any state—require federal approval via the federal Franchise Disclosure form. We also have an additional state process whereby franchisors must pay a \$500 filing fee and submit additional information to the state for further approval. And there is a similar annual renewal requirement. The purpose of the state review is to protect franchisees, however, the process is burdensome due to lengthy wait times. The bill would establish a Pilot Program to expedite the review of the franchise registration renewal if the franchisor provides certain information no later than 30 days after the end of the registrant's fiscal year.

The bill makes a few other changes. First, it clarifies that Maryland franchisees may join associations of franchisees and provides legal protection for doing so. Second, it alters the statute of limitations on certain claims to within three years of the grant of the franchise or within two years of the franchise being open to the public, whichever is later.

The bill will serve as a first step in a larger goal of fully overhauling and reforming the franchise process within Maryland. Ultimately, the goal is to implement a process that rivals our neighbors in efficiency and allows for more Marylanders to pursue business ownership through franchising.

The Franchise Reform Act will support business ownership in Maryland by providing further protections to franchisees and inform future action to promote economic prosperity and growth in Maryland. The legislation passed the House of Delegates on a bipartisan basis 137-0 and had no opposition testimony. I urge a favorable report.

HB 992 Fact Sheet (1).pdf

Uploaded by: Marc Korman

Position: FAV



THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

Fact Sheet-Franchise Reform Act (HB 992)

Summary:

Maryland is considered one of the toughest states for Franchisors in the country with a lengthy review process for franchise applications and renewals by the Securities Commissioner in the Office of the Attorney General. Maryland is one of just ten Franchise Registration States (along with California, Hawaii, Illinois, Minnesota, New York, North Dakota, Rhode Island, Virginia, and Washington) that require a Franchisor to file a federal Franchise Disclosure Document, pay a state fee, and obtain state approval through a state registration process, and annual renew the registration.

While a renewal is pending, franchisors cannot sign new franchisees. These protections were put in place to ensure franchisees are being protected but a balance between protecting our franchisees and encouraging our franchisors is required. The Franchise Reform Act proposes several reforms to ease the burden on franchisors while still ensuring adequate protection for franchisees.

Potential Changes to Process:

1. Establish a Pilot Program to expedite the review of the franchise registration renewal if the franchisor provides certain information no later than 30 days after the end of the registrant's fiscal year.
2. Extend franchisee rights by allowing them to bring claims under the law within three years of the grant of the franchise or within two years of the franchise being open to the public, whichever is later.
3. Allows Maryland franchisees to join a Franchise Association.
4. Require reporting of the Securities Commissioner on the effectiveness of the pilot.

The legislation passed the House of Delegates on a bipartisan basis 137-0 and had no opposition testimony.

MD HB 992 - IFA Letter in Suport.pdf

Uploaded by: Matthew Kagel

Position: FAV



March 21, 2025

Senate Finance Committee

Honorable Chairwoman Pamela Beidle
Miller Senate Office Building, Room 3
11 Bladen Street
Annapolis, MD 21401

Re: Support House Bill 992 - Maryland Franchise Registration and Disclosure Law

Dear Chairwoman Beidle, Vice Chair Hayes, and Members of the Senate Finance Committee:

This letter is submitted on behalf of the International Franchise Association (“IFA”), the largest trade organization representing franchising, including the more than **16,000 franchised businesses** operating in Maryland that employ more than **173,000 Maryland workers** and contribute approximately **\$18.1 billion** to the state’s economy. IFA applauds the efforts of Delegate Marc Korman to increase opportunities for entrepreneurship, introduce new jobs, and grow the Maryland economy through franchising by establishing a franchise registration renewal pilot program under House Bill 992. The pilot program will allow existing franchisors to expedite renewal of their franchise registrations under Maryland Registration and Disclosure Law, reducing the time during which franchisors are unable to engage in the sale of new franchises or transfer of existing franchises in the State and alleviating some of the burden experienced by the Maryland Attorney General in processing thousands of new and renewal registration applications in April each year. **The pilot program will position Maryland as the first franchise registration state to proactively take steps to address the strain put on the resources of the Attorney General by the rising volume of franchise registrations each year**, and other franchise registration states have already signaled they will look to the pilot program proposed by Delegate Korman as a model in establishing similar pilot programs within their States.

We further support the efforts of Delegate Korman to promote collaboration among franchisors and their franchisees through open communications with franchise advisory

councils and independent franchisee associations, as set forth in IFA's Responsible Franchising Principles.¹

Finally, IFA acknowledges the need for amendments to the Maryland Franchise Registration and Disclosure Law to extend the limitations period to five years during which the Attorney General may bring enforcement actions and to extend the limitations period to five years for franchisees who may not open their franchised business to the public within the existing three-year limitations period for claims. IFA therefore does not oppose the extension of the limitations period for enforcement actions and claims to five years.

Maryland was recently named one of the top 10 states for franchise growth.² The registration renewal program under House Bill 992 promotes the continuation of that growth, encouraging investment in small businesses and driving entrepreneurship.

For the reasons stated above, IFA encourages a favorable report from the Senate Committee on Finance to pass House Bill 992.

Thank you for your consideration. If you have any questions, please contact me at mkagel@franchise.org or 202-662-4176.

Respectfully,

A handwritten signature in black ink, appearing to read 'MKAGEL', with a horizontal line extending from the end of the signature.

Matthew W. Kagel
Director, State & Local Government Relations
International Franchise Association

¹ <https://www.franchise.org/advocacy/responsible-franchising/>

² FRANData, 2025 Franchising Economic Outlook Report, <https://www.franchise.org/franchising-economic-outlook/>.

HB992_OAG_FAV

Uploaded by: Melanie Senter Lubin

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OFFICE OF THE ATTORNEY GENERAL

ANTHONY G. BROWN
Attorney General

March 21, 2025

TO: The Honorable Pam Beidle
Chair, Finance Committee

FROM: Melanie Senter Lubin
Securities Commissioner, Securities Division, Office of the Attorney
General

RE: HB992 – Franchise Reform Act - **Favorable**

The Office of the Attorney General's (OAG) Securities Division (Securities Division) urges this Committee to favorably report **HB 992**, the Franchise Reform Act. This legislation, sponsored by Delegate Mark Korman, would amend the Maryland Franchise Registration and Disclosure Law (Maryland Franchise Law) to modify the statute of limitations for an action brought by the Securities Division for violations of the Maryland Franchise Law; establish a pilot program to expedite review of franchise renewal filings; allow for freedom of association amongst franchisees to enable them to create franchisee trade associations; and amend the statute of limitations for private causes of action under the Maryland Franchise Law.

The proposed changes to the Maryland Franchise Law are beneficial to franchisors, franchisees and the Securities Division. Thus, in addition to the Securities Division, **HB 992** is supported by the Business Section of the Maryland State Bar Association (MSBA) and the International Franchise Association (IFA). Delegate Korman worked closely with the Securities Division, the MSBA and the IFA to develop legislation that addresses areas of mutual concern without imposing additional regulatory requirements on franchisors or compromising franchisee protections afforded by the Maryland Franchise law.

For the above reasons, the Office of the Attorney General requests a favorable report on **House Bill 992**.

CC: The Honorable Mark Korman