



DENISE MERRILL

SECRETARY OF THE STATE
CONNECTICUT

Committee on Banks Public Hearing

March 8, 2011

Testimony—RB 6497

Good morning, Chairman Duff, Chairman Tong, and members of the committee. My name is James Spallone and I am the Deputy Secretary of the State.

I am here this morning to testify on behalf of Secretary of the State Merrill in support of Raised Bill 6497, **“An Act Creating Jobs By Enhancing Connecticut’s Corporate And Security Laws.”**

Secretary Merrill favors the provisions of this bill that codify the Model Entity Transactions Act, or META, which are the provisions ranging from Section 2 through Section 59.

The Model Entity Transactions Act can be viewed as a junction box statute that will permit different entity types to convert or merge into one another or to engage in interest exchanges among each other. An entity might enter the junction box as an LLC and emerge as a Limited Partnership, for example.

With few exceptions, entities have not had the ability to convert form under Connecticut law, so this bill will afford new flexibility to allow commerce to flow more realistically in this modern era, where flux is the norm and transformation is valued.

In addition to allowing entities to transform and to exchange interest, this act will also permit the redomestication of business entities. Until now, only insurance companies could redomesticate to Connecticut. All other businesses

seeking to make our state their home had to dissolve in their previous jurisdiction and then reform under our law, robbing them of business continuity.

While this bill will permit additional transactions to occur, it will not change the basic nature of the entity statutes. Instead, it will stand alone and the provisions of each entity act will continue in full force and effect.

Also, there are carve-outs to respect current Connecticut policy. For example, under Connecticut law a nonstock corporation may not convert or merge into a stock corporation or other profit-oriented entity type.

This bill thoughtfully exempts nonstock corporations and nonprofit organizations from the conversion and interest exchange flexibility because that would not comport with Connecticut charitable organization regulation.

Other states permit some of the conversions and redomestications that META seeks to codify in Connecticut, but there are only three states in the union to date that permit all of the potential transactions under META.

By becoming an early adopter of META through the passage of Raised Bill 6497, businesses currently organized under the laws of other jurisdictions might view Connecticut as a state that affords the flexibility for them to transact according to their market needs. That could attract new business to our state, and we all know we could use that these days.

Further, without the ability to convert entities and perform META transactions, Connecticut businesses are often forced to redomesticate to Delaware or other states in order to accomplish conversions and interest exchanges. This may be driving businesses out of Connecticut, as well.

Secretary Merrill appreciates the efforts that the Connecticut Bar Association has made, particularly through its Business Law Section, to keep the agency apprised of this bill's content and implications. In fact, the Commercial Recording Division was afforded input into some of the draft language of the bill.

As one might expect, modifying our automated systems in the Commercial Recording Division to address the many new transactions that will become possible with the passage of this bill will not be inexpensive.

However, because the Bar Association has kept our office informed about these developments, we have been able to include adequate automation development funding in a tech upgrade bonding package that has already been submitted to the Committee on Finance, Revenue and Bonding. Assuming that bonding is granted, the Commercial Recording Division will have adequate funding to accommodate the provisions of this bill.

The Secretary has only one request regarding Raised Bill #6497:

Because it will require a great deal of software programming and application development to meet the many new transactions envisioned by this bill, the Secretary has sought the cooperation of the Bar Association in changing the effective date of the META provisions in the bill to January 1, 2014 instead of the October 1, 2011 effective date currently drafted into the raised bill.

It is my understanding that the Bar Association, as the chief proponent of the bill, has agreed to this request, so I ask that the Committee kindly amend the effective date in order to give us the opportunity to prepare for this substantial transition.

Once again, I thank the Bar Association for its collaborative approach and cooperation, I thank the Committee for your attention. Secretary Merrill and I respectfully urge this bill's passage with an amended effective date of January 1, 2014.