

Date of Hearing: January 20, 2022

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Chris Holden, Chair

AB 1381 (Gallagher) – As Amended January 5, 2022

Policy Committee: Banking and Finance

Vote: 11 - 0

Urgency: No

State Mandated Local Program: No

Reimbursable: No

SUMMARY:

This bill requires the Secretary of State (SOS), by January 1, 2024, to implement a procedure to notify a limited liability company (LLC) when an updated Statement of Information (SOI) regarding the LLC has been filed. The SOS must send the notice to the LLC's mailing address or electronic mail address previously on file before submission of the new SOI.

FISCAL EFFECT:

One-time costs of approximately \$25,000 to the SOS to update informational systems, and ongoing costs of approximately \$90,000 to the SOS for increased staff workload and postage, to notify LLCs of an updated SOI filing (Business Fees Fund).

COMMENTS:

1) **Purpose.** According to the author:

AB 1381 would provide an extra layer of protection from fraud for LLC members who file a [SOI] with the [SOS]. The bill would require a simple notification from the [SOS] to the original [SOI] filer so they can take action if any suspected fraudulent activity has taken place within their LLC.

2) **False SOIs.** The SOI identifies key individuals running a business and is often used to open bank accounts, enter into contracts and otherwise verify the business's legitimacy. When such information changes, the business must file a new SOI that supersedes any previously filed statement. There have been recent instances of individuals filing a false SOI as part of an effort to illegitimately sell or borrow against another LLC's real property, utilizing fake documents supported by the "new" SOI. This bill attempts to prevent such schemes and add an additional layer of checks-and-balances by notifying all original parties listed on the prior SOI when an updated document is filed.

Analysis Prepared by: Irene Ho / APPR. / (916) 319-2081