

AMENDED IN ASSEMBLY MARCH 17, 2016

CALIFORNIA LEGISLATURE—2015–16 REGULAR SESSION

**ASSEMBLY BILL**

**No. 1686**

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**Introduced by Assembly Member Travis Allen**

January 20, 2016

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An act to amend ~~Section 1002 of the Financial Code, relating to banking~~; *Section 158 of the Corporations Code, relating to corporations.*

LEGISLATIVE COUNSEL'S DIGEST

AB 1686, as amended, Travis Allen. ~~Banking~~. *Close corporations.*

*Existing law, the General Corporation Law, defines different types of business entities and corporations and prescribes their powers and duties. Existing law defines a close corporation as a corporation the articles of which contain, in addition to other things, a provision requiring that all of the corporation's issued shares of all classes be held of record by a specified number of people, not to exceed 35.*

*This bill would raise the maximum number of people who can hold shares in a close corporation, as described above, to 40.*

~~Existing law regulates the practice of banking in California and classifies these institutions as commercial banks, industrial banks, and trust companies. Existing law prohibits a bank from being a close corporation, as defined.~~

~~This bill would make nonsubstantive changes to the prohibition on banks as close corporations.~~

Vote: majority. Appropriation: no. Fiscal committee: no.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1     SECTION 1. Section 158 of the Corporations Code is amended  
2 to read:

3     158. (a) “Close corporation” means a corporation, including  
4 a close social purpose corporation, whose articles contain, in  
5 addition to the provisions required by Section 202, a provision that  
6 all of the corporation’s issued shares of all classes shall be held of  
7 record by not more than a specified number of persons, not  
8 exceeding ~~35~~, 40, and a statement “This corporation is a close  
9 corporation.”

10     (b) The special provisions referred to in subdivision (a) may be  
11 included in the articles by amendment, but if such amendment is  
12 adopted after the issuance of shares only by the affirmative vote  
13 of all of the issued and outstanding shares of all classes.

14     (c) The special provisions referred to in subdivision (a) may be  
15 deleted from the articles by amendment, or the number of  
16 shareholders specified may be changed by amendment, but if such  
17 amendment is adopted after the issuance of shares only by the  
18 affirmative vote of at least two-thirds of each class of the  
19 outstanding shares; provided, however, that the articles may  
20 provide for a lesser vote, but not less than a majority of the  
21 outstanding shares, or may deny a vote to any class, or both.

22     (d) In determining the number of shareholders for the purposes  
23 of the provision in the articles authorized by this section, a husband  
24 and wife and the personal representative of either shall be counted  
25 as one regardless of how shares may be held by either or both of  
26 them, a trust or personal representative of a decedent holding shares  
27 shall be counted as one regardless of the number of trustees or  
28 beneficiaries and a partnership or corporation or business  
29 association holding shares shall be counted as one (except that any  
30 such trust or entity the primary purpose of which was the  
31 acquisition or voting of the shares shall be counted according to  
32 the number of beneficial interests therein).

33     (e) A corporation shall cease to be a close corporation upon the  
34 filing of an amendment to its articles pursuant to subdivision (c)  
35 or if it shall have more than the maximum number of holders of  
36 record of its shares specified in its articles as a result of an inter  
37 vivos transfer of shares which is not void under subdivision (d) of  
38 Section 418, the transfer of shares on distribution by will or

1 pursuant to the laws of descent and distribution, the dissolution of  
2 a partnership or corporation or business association or the  
3 termination of a trust which holds shares, by court decree upon  
4 dissolution of a marriage or otherwise by operation of law.  
5 Promptly upon acquiring more than the specified number of holders  
6 of record of its shares, a close corporation shall execute and file  
7 an amendment to its articles deleting the special provisions referred  
8 to in subdivision (a) and deleting any other provisions not  
9 permissible for a corporation which is not a close corporation,  
10 which amendment shall be promptly approved and filed by the  
11 board and need not be approved by the outstanding shares.

12 (f) Nothing contained in this section shall invalidate any  
13 agreement among the shareholders to vote for the deletion from  
14 the articles of the special provisions referred to in subdivision (a)  
15 upon the lapse of a specified period of time or upon the occurrence  
16 of a certain event or condition or otherwise.

17 (g) The following sections contain specific references to close  
18 corporations: Sections 186, 202, 204, 300, 418, 421, 1111, 1201,  
19 1800, and 1904.

20 ~~SECTION 1. Section 1002 of the Financial Code is amended~~  
21 ~~to read:~~

22 ~~1002. A bank shall not be a close corporation, as defined in~~  
23 ~~Section 158 of the Corporations Code.~~