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## Massachusetts DOR Revises Its Proposed Directive on Restrictions on Pledges of Security Corporation Stock

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Companies with Massachusetts security corporation subsidiaries are often asked by lenders to pledge as security for a loan their shares of stock in the security corporation subsidiaries. To qualify as a security corporation, a corporation must be classified as such by the Massachusetts Department of Revenue (DOR) and must engage exclusively in buying, selling, dealing in, or holding securities on its own behalf. The DOR, [in a draft Directive released on September 30, 2011](#), announced proposed limitations on the ability of a shareholder (such as a parent corporation) to pledge as security for a loan the stock of a security corporation. As a result of comments received by the DOR, it released on April 6, 2012 a substantially revised draft of its proposed Directive.

Under the [revised draft Directive](#), a pledge of the shares of stock in a security corporation as security or collateral for a loan to a shareholder, in and of itself, will not preclude or revoke security corporation status. Also, the shareholder's restrictive covenants accompanying such pledge will not endanger security corporation status as long as such covenants merely limit the security corporation to investment activities permissible for a security corporation. Examples of permissible and impermissible covenants are contained in the draft Directive. The draft confirms that a security corporation may not guarantee or pledge its assets as security for a loan to a shareholder.

The DOR has requested that comments be submitted by April 25, 2012.

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