

AMENDED IN ASSEMBLY JUNE 18, 2009

CALIFORNIA LEGISLATURE—2009—10 REGULAR SESSION

ASSEMBLY BILL

No. 1584

Introduced by Committee on Public Employees, Retirement and Social Security (Hernandez (Chair), Furutani (Vice Chair), Beall, Nestande, and Torrico)

May 26, 2009

An act to amend Section 22212.5 of the Education Code, and to amend Sections 20098 and 31528 of, and to add Sections 7508.5, 7513.8, 7513.85, 7513.9, and 7513.95 to, the Government Code, relating to public employees' retirement, and declaring the urgency thereof, to take effect immediately.

LEGISLATIVE COUNSEL'S DIGEST

AB 1584, as amended, Committee on Public Employees, Retirement and Social Security. Public employees' retirement: retirement boards.

Existing law prohibits designated officers and employees of the Board of Administration of the Public Employees' Retirement System (PERS) and the Teachers' Retirement Board of the State Teachers' Retirement System (STRS), who served in those positions for less than 5 years, from taking any specified action on behalf of any person, other than the state, to influence certain actions by the retirement boards or systems within 2 years after leaving that position.

The County Employees Retirement Law of 1937 prohibits a member or employee of a retirement board from becoming an endorser, surety, or obligor on, or from having any personal interest in the making of an investment for the board, or in the gains or profits that accrue from those investments, except as specified. That law also prohibits a member or employee of a retirement board or board of investments from selling

or providing any investment product that would be considered an asset of the retirement fund to a retirement system established under that law.

This bill would include a member of the board, a deputy executive officer, and an assistant executive officer among those positions subject to the 2-year postemployment restriction, and would delete the qualification that the person have served in that position for less than 5 years. The bill also would make that post-employment restriction applicable to designated officers and employees, board members, and administrators of county retirement systems and specified employees of other public pension and retirement systems.

This bill would require the retirement boards of each public pension or retirement system to develop and implement, on or before June 30, 2010, a policy requiring the disclosure of payments to placement agents, as defined, in connection with system investments in or through external managers, as defined. The bill would prohibit an external manager or placement agent that violates that policy from soliciting new investments from the system for ~~24 months~~ 5 years after the violation was committed, *but would provide for the reduction of that prohibition as specified*. The bill also would prohibit the system from entering into any agreement with an external manager that does not agree in writing to comply with the policy. The bill would require a placement agent, prior to acting as a placement agent in connection with any potential system investment, to disclose to the board all campaign contributions made by the placement agent to any elected member of the board, *and all gifts given to any member of the board*, during the prior 24-month period, and to disclose any subsequent campaign contribution made by the placement agent to an elected member of the board, *or a subsequent gift given to any member of the board*, during the time the placement agent is receiving compensation in connection with a system investment. The bill would prohibit a member or employee of the board from, directly or indirectly, by himself or herself, or as an agent, partner, or employee of a person or entity other than the board, selling or providing any investment product that would be considered an asset of the fund to any public retirement system in California.

This bill would declare that it is to take effect immediately as an urgency statute.

Vote: $\frac{2}{3}$. Appropriation: no. Fiscal committee: yes.

State-mandated local program: no.

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

1 SECTION 1. Section 22212.5 of the Education Code is
2 amended to read:

3 22212.5. (a) Except as otherwise provided in subdivision (d),
4 this section shall apply to the following positions in the system:
5 chief executive officer, system actuary, general counsel, chief
6 investment officer, and other investment officers and portfolio
7 managers whose positions are designated managerial pursuant to
8 Section 18801.1 of the Government Code.

9 (b) Notwithstanding Sections 19816, 19825, 19826, 19829, and
10 19832 of the Government Code, the board shall fix the
11 compensation for the positions specified in subdivision (a). In so
12 doing, the board shall be guided by the principles contained in
13 Sections 19826 and 19829 of the Government Code, consistent
14 with its fiduciary responsibility to its members to recruit and retain
15 highly qualified and effective employees for these positions.

16 (c) When a position specified in subdivision (a) is filled through
17 a general civil service appointment, it shall be filled from an
18 eligible list based on an examination that was held on an open
19 basis, and tenure in those positions shall be subject to the provisions
20 of Article 2 (commencing with Section 19590) of Chapter 7 of
21 Part 2 of Division 5 of Title 2 of the Government Code. In addition
22 to the causes for action specified in that article, the board may take
23 action under the article for causes related to its fiduciary
24 responsibility to its members, including the employee's failure to
25 meet specified performance objectives.

26 (d) An individual who held a position designated in subdivision
27 (a), or was a member of the board, a deputy executive officer, or
28 an assistant executive officer, shall not, for a period of two years
29 after leaving that position, for compensation, act as agent or
30 attorney for, or otherwise represent, any other person, except the
31 state, by making any formal or informal appearance before or by
32 making any oral or written communication to the board, or any
33 officer or employee thereof, if the appearance or communication
34 is made for the purpose of influencing administrative or legislative
35 action or any action or proceeding involving the issuance,
36 amendment, awarding, or revocation of a permit, license, grant,
37 contract, or sale or purchase of goods or property.

SEC. 2. Section 7508.5 is added to the Government Code, to read:

7508.5. Except as otherwise provided in Section 20098 or 31528 of this code, or Section 22212.5 of the Education Code, an individual who was a member of the retirement board of a public pension or retirement system, as defined in subdivision (h) of Section 17 of Article XVI of the California Constitution, or an administrator, executive officer, investment officer, or general counsel of that board, shall not, for a period of two years after leaving that position, for compensation, act as agent or attorney for, or otherwise represent, any other person except the public entity maintaining that pension or retirement system, by making any formal or informal appearance before or any oral or written communication to the pension or retirement system, or any officer or employee thereof, if the appearance or communication is made for the purpose of influencing administrative or legislative action, or any action or proceeding involving the issuance, amendment, awarding, or revocation of a permit, license, grant, contract, or sale or purchase of goods or property.

SEC. 3. Section 7513.8 is added to the Government Code, to read:

7513.8. As used in Sections 7513.85, 7513.9, and 7513.95:

(a) "Board" means the retirement board of a public pension or retirement system, as defined in subdivision (h) of Section 17 of Article XVI of the California Constitution.

(b) "External manager" means an asset management firm that is seeking to be, or has been, retained by a public retirement system in California to manage a portfolio of assets, including securities, for a fee.

(c) "Placement agent" means any person or entity hired, engaged, or retained by, or acting on behalf of, an external manager, or on behalf of another placement agent, as a finder, solicitor, marketer, consultant, broker, or other intermediary to raise money or investment from, or to obtain access to, a public retirement system in California, directly or indirectly, including, without limitation, through an investment vehicle.

SEC. 4. Section 7513.85 is added to the Government Code, to read:

7513.85. (a) The board shall develop and implement, on or before June 30, 2010, a policy requiring the disclosure of payments

to placement agents in connection with system investments in or through external managers. The policy shall include, but not be limited to, the following requirements:

(1) Disclosure of the existence of relationships between external managers and placement agents.

(2) A resume for each officer, partner, or principal of the placement agent detailing the person's education, professional designations, regulatory licenses, and investment and work experience.

(3) A description of any and all compensation of any kind provided, or agreed to be provided, to a placement agent.

(4) A description of the services to be performed by the placement agent.

(5) A statement whether the placement agent or any of its affiliates are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or any similar regulatory agent in a country other than the United States, and the details of that registration or explanation as to why no registration is required.

(6) A statement whether the placement agent, or any of its affiliates, is registered as a lobbyist with any state or national government.

(b) Any external manager or placement agent that violates the policy shall not solicit new investments from the system for ~~24 months~~ *five years* after the violation was committed. *However, this prohibition may be reduced by a majority vote of the board at a public session upon a showing of good cause.*

(c) The system shall not enter into any agreement with an external manager that does not agree in writing to comply with the policy.

(d) Nothing in this section shall require the board to take action as describe in this section unless the board determines, in good faith, that the action described in this section is consistent with the fiduciary responsibilities of the board as described in Section 17 of Article XVI of the California Constitution.

SEC. 5. Section 7513.9 is added to the Government Code, to read:

7513.9. (a) Any placement agent, prior to acting as a placement agent in connection with any potential system investment, shall ~~be required to~~ disclose to the board all campaign contributions

1 made by the placement agent to any elected member of the board
2 during the prior 24-month period. Additionally, any subsequent
3 campaign contribution made by the placement agent to an elected
4 member of the board during the time the placement agent is
5 receiving compensation in connection with a system investment
6 shall also be disclosed.

7 *(b) Any placement agent, prior to acting as a placement agent*
8 *in connection with any potential system investment, shall be*
9 *required to disclose to the board all gifts, as defined in Section*
10 *82028, given by the placement agent to any member of the board*
11 *during the prior 24-month period. Additionally, any subsequent*
12 *gift given by the placement agent to any member of the board*
13 *during the time the placement agent is receiving compensation in*
14 *connection with a system investment shall also be disclosed.*

15 SEC. 6. Section 7513.95 is added to the Government Code, to
16 read:

17 7513.95. A member or employee of the board shall not, directly
18 or indirectly, by himself or herself, or as an agent, partner, or
19 employee of a person or entity other than the board, sell or provide
20 any investment product that would be considered an asset of the
21 fund to any public retirement system in California.

22 SEC. 7. Section 20098 of the Government Code is amended
23 to read:

24 20098. (a) The board shall appoint and, notwithstanding
25 Sections 19816, 19825, 19826, 19829, and 19832 shall fix the
26 compensation of an executive officer, a general counsel, a chief
27 actuary, a chief investment officer, and other investment officers
28 and portfolio managers whose positions are designated managerial
29 pursuant to Section 18801.1.

30 (b) The executive officer, deputy executive officers, and the
31 assistant executive officers may administer oaths.

32 (c) When fixing the compensation for the positions specified in
33 subdivision (a), the board shall be guided by the principles
34 contained in Sections 19826 and 19829, consistent with its
35 fiduciary responsibility to its members to recruit and retain highly
36 qualified and effective employees for these positions.

37 (d) When a position specified in subdivision (a) is filled through
38 a general civil service appointment, it shall be filled from an
39 eligible list based on an examination that was held on an open
40 basis, and tenure in the position shall be subject to the provisions

1 of Article 2 (commencing with Section 19590) of Chapter 7 of
2 Part 2 of Division 5 of Title 2. In addition to the causes for action
3 specified in that article, the board may take action under the article
4 for causes related to its fiduciary responsibility to its members,
5 including the employee's failure to meet specified performance
6 objectives.

7 (e) An individual who held a position designated in subdivision
8 (a), or was a member of the board, a deputy executive officer, or
9 an assistant executive officer, shall not, for a period of two years
10 after leaving that position, for compensation, act as agent or
11 attorney for, or otherwise represent, any other person, except the
12 state, by making any formal or informal appearance before or any
13 oral or written communication to the Public Employees' Retirement
14 System, or any officer or employee thereof, if the appearance or
15 communication is made for the purpose of influencing
16 administrative or legislative action or any action or proceeding
17 involving the issuance, amendment, awarding, or revocation of a
18 permit, license, grant, contract, or sale or purchase of goods or
19 property.

20 SEC. 8. Section 31528 of the Government Code is amended
21 to read:

22 31528. (a) Unless permitted by this chapter, a member or
23 employee of the board shall not become an endorser, surety, or
24 obligor on, or have any personal interest, direct or indirect, in the
25 making of any investment for the board, or in the gains or profits
26 accruing from those investments. A member or employee of the
27 board shall not directly or indirectly, for himself or herself, or as
28 an agent or partner of others, borrow or use any of the funds or
29 deposits of the retirement system, except to make current and
30 necessary payments authorized by the board.

31 (b) A member or employee of the board shall not, directly or
32 indirectly, by himself or herself, or as an agent or partner or
33 employee of others, sell or provide any investment product that
34 would be considered an asset of the fund, to any retirement system
35 established pursuant to this chapter.

36 (c) An individual who held a position designated in Section
37 31522.3, 31522.4, or 31522.5, or was a member of the board or
38 an administrator, shall not, for a period of two years after leaving
39 that position, for compensation, act as agent or attorney for, or
40 otherwise represent, any other person except the county, by making

1 any formal or informal appearance before or any oral or written
2 communication to the retirement system, or any officer or employee
3 thereof, if the appearance or communication is made for the
4 purpose of influencing administrative or legislative action, or any
5 action or proceeding involving the issuance, amendment, awarding,
6 or revocation of a permit, license, grant, contract, or sale or
7 purchase of goods or property.

8 SEC. 9. This act is an urgency statute necessary for the
9 immediate preservation of the public peace, health, or safety within
10 the meaning of Article IV of the Constitution and shall go into
11 immediate effect. The facts constituting the necessity are:

12 In order to ensure that public pension board members, employees,
13 and consultants conduct business to the highest ethical standard,
14 comply with all fiduciary responsibilities, and actively work to
15 eliminate actual or perceived conflicts of interest as soon as
16 possible, it is necessary that this act take effect immediately.