

SENATE BILL No. 1416

September 17, 2002, Introduced by Senator PETERS and referred to the Committee on Appropriations.

A bill to amend 1965 PA 314, entitled
"Public employee retirement system investment act,"
(MCL 38.1132 to 38.1140/) by adding section 13b.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 SEC. 13B. (1) AN INVESTMENT FIDUCIARY THAT DOES BUSINESS
2 WITH A SYSTEM THAT IS CREATED AND ESTABLISHED BY THIS STATE SHALL
3 DISCLOSE ALL OF THE FOLLOWING TO THE SYSTEM, IN WRITING ON AN
4 ANNUAL BASIS:

5 (A) THE COMPENSATION BASIS FOR EACH PORTFOLIO MANAGER AND
6 ANALYST.

7 (B) ANY POTENTIAL CONFLICTS OF INTEREST THAT ARISE AS A
8 RESULT OF RELATIONSHIPS BETWEEN CLIENTS AND CORPORATE PARENTS OF
9 THE INVESTMENT FIDUCIARY.

1 (C) WHETHER THE INVESTMENT FIDUCIARY USES BROKER-DEALERS
2 THAT HAVE ADOPTED ALL OF THE FOLLOWING CONFLICT OF INTEREST
3 PRINCIPLES:

4 (i) THERE SHALL BE NO LINK BETWEEN ANALYST COMPENSATION AND
5 INVESTMENT BANKING.

6 (ii) THERE SHALL BE NO INVESTMENT BANK INPUT INTO ANALYST
7 COMPENSATION.

8 (iii) ALL RESEARCH RECOMMENDATIONS SHALL BE REVIEWED, ANA-
9 LYZED, AND APPROVED OR DISAPPROVED BY AN INDEPENDENT INVESTMENT
10 REVIEW COMMITTEE.

11 (iv) AN INDEPENDENT MONITOR SHALL BE ESTABLISHED TO ENSURE
12 COMPLIANCE WITH THE CONFLICT OF INTEREST PRINCIPLES.

13 (v) IF RESEARCH COVERAGE OF A COMPANY IS DISCONTINUED, THE
14 BROKER-DEALER SHALL RECEIVE A REPORT FROM THE INVESTMENT BANKING
15 FIRM OR RESEARCHER DISCLOSING THE REASONS FOR DISCONTINUING
16 RESEARCH COVERAGE AND THE BROKER-DEALER SHALL NOTIFY THE STATE
17 THAT THE LAST RATING FOR THE COMPANY IS NOT TO BE RELIED UPON.

18 (vi) PROVIDE CONSPICUOUS NOTICE ON ALL RESEARCH REPORTS
19 STATING WHETHER THE COMPANY BEING RATED IS AN INVESTMENT BANKING
20 CLIENT OF THE BROKER-DEALER.

21 (2) INVESTMENT FIDUCIARIES THAT ARE FIDUCIARIES FOR A SYSTEM
22 THAT IS CREATED AND OPERATED BY THIS STATE SHALL ADOPT SAFEGUARDS
23 THAT ENSURE THAT POTENTIAL CONFLICTS OF INTEREST DO NOT INFLUENCE
24 INVESTMENT DECISIONS MADE ON BEHALF OF THE SYSTEM.

25 (3) INVESTMENT FIDUCIARIES THAT ARE FIDUCIARIES FOR A SYSTEM
26 THAT IS CREATED AND OPERATED BY THIS STATE SHALL CLOSELY

1 SCRUTINIZE THE AUDITING AND CORPORATE GOVERNANCE PRACTICES OF
2 COMPANIES IN WHICH PENSION FUNDS ARE INVESTED.