

By Senator Deutch

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1 A bill to be entitled
2 An act relating to the State Board of Administration;
3 amending s. 215.44, F.S.; requiring that the board
4 create an audit committee for specified purposes;
5 providing for membership of the committee; providing
6 requirements for members of the committee; prescribing
7 terms for members; providing that members are state
8 officers as defined by state law; providing duties and
9 powers of the committee; requiring that the executive
10 director of the board respond in writing and indicate
11 whether action will be taken within a specified period
12 after receipt of a recommendation from the committee;
13 requiring that a copy of the executive director's
14 response be provided to the board and the committee;
15 requiring that the committee appoint a Chief of
16 Internal Audit; providing powers and obligations of
17 the chief; authorizing the board to prescribe
18 additional powers and duties to the committee;
19 amending s. 215.441, F.S.; requiring that the board
20 appoint an executive director; providing requirements
21 for appointment as executive director; providing
22 duties of the executive director; authorizing the
23 board to set additional requirements for appointment;
24 providing that the executive director is a state
25 officer for purposes of certain provisions of state
26 law; amending s. 215.442, F.S.; requiring that the
27 executive director's quarterly report to the board of
28 trustees of the State Board of Administration and
29 Investment Advisory Council contain certain

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30 information; amending s. 215.444, F.S.; increasing the
31 number of members of the Investment Advisory Council;
32 requiring that the council annually make certain
33 recommendations; requiring that the council approve
34 all new products considered for investment by the
35 board; requiring that a specified number of members of
36 the council represent specified interests; providing
37 that members are state officers for purposes of
38 certain provisions of state law; amending s. 215.47,
39 F.S.; conforming cross-references; amending s.
40 215.475, F.S.; requiring that the Investment Advisory
41 Council assist in the development of the Florida
42 Retirement System Defined Benefit Plan Investment
43 Policy Statement; deleting provisions requiring the
44 review of recommended changes to the statement by the
45 council; creating s. 215.4754, F.S.; requiring that
46 the board adopt by rule standards of conduct for
47 investment advisers and managers; providing
48 circumstances under which a contract with an
49 investment adviser or manager is voidable; prohibiting
50 an Investment Advisory Council member or such member's
51 business organization or affiliate from performing
52 certain actions during the member's service on the
53 council and for a specified period thereafter;
54 creating s. 215.4755, F.S.; requiring that an
55 investment adviser or manager disclose certain
56 information to the board; requiring that an investment
57 adviser or manager annually file a statement with the
58 board; requiring that the statement contain certain

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59 information and be filed on or before a specified
60 deadline on a form prescribed by the board; requiring
61 that the statement cover the preceding calendar year;
62 requiring that an investment adviser or manager file a
63 new or amended statement under certain circumstances;
64 amending s. 218.409, F.S.; requiring that the board
65 create a participating investor council; providing
66 purposes of the council; providing an effective date.

67
68 Be It Enacted by the Legislature of the State of Florida:

69
70 Section 1. Present subsections (3) through (9) of section
71 215.44, Florida Statutes, are renumbered as subsections (4)
72 through (10), respectively, and a new subsection (3) is added to
73 that section, to read:

74 215.44 Board of Administration; powers and duties in
75 relation to investment of trust funds.—

76 (3) (a) The board shall create an audit committee to assist
77 the board in fulfilling its oversight responsibilities in the
78 areas of financial reporting, internal controls and risk
79 assessment, audit processes, and compliance with laws and rules.
80 The audit committee shall be chaired by the Chief Financial
81 Officer and shall consist of six members. The Governor and the
82 Attorney General shall each appoint two members to the audit
83 committee, and the Chief Financial Officer shall appoint one
84 member. Each member must be independent and free from any
85 relationship that would interfere with the exercise of his or
86 her independent judgment as a member of the committee. Each
87 member shall be appointed to a term of 4 years and shall serve

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88 at the pleasure of his or her appointing authority. Persons
89 appointed to the audit committee must have relevant knowledge
90 and expertise as determined by the board. Members of the
91 committee are state officers for purposes of s. 112.3145.

92 (b) The audit committee shall independently and objectively
93 monitor on an ongoing basis the board's processes for financial
94 reporting, internal controls and risk assessment, and compliance
95 with laws and rules. The audit committee shall direct the
96 efforts of the board's independent external auditors and the
97 board's internal audit staff. The committee shall report, at
98 least quarterly, all findings and recommendations to the
99 executive director and the board.

100 (c) The audit committee may:

101 1. Seek any information it requires from employees of the
102 board, who shall provide such information upon request, and from
103 third parties;

104 2. Meet, as necessary, with the investment advisory
105 council, the investor council, board employees, or external
106 auditors;

107 3. Review the budget for the Office of Internal Audit; and
108 4. Retain outside accountants, consultants, attorneys, or
109 others approved by the board to assist in conducting an audit,
110 review, or special investigation as directed by the board.

111 (d) Upon receipt of any recommendation from the committee,
112 the executive director shall, within 30 days after receipt,
113 respond in writing and indicate whether action will be taken.
114 The executive director shall specify the action that will be
115 taken or the reasons for not taking action. A copy of the
116 executive director's written response shall be provided to the

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117 committee and the board.

118 (e) The committee shall appoint a Chief of Internal Audit,
119 who shall have those powers and duties set by the committee and
120 report to the committee.

121 (f) The committee shall have additional powers and duties
122 as set by the board.

123 Section 2. Section 215.441, Florida Statutes, is amended to
124 read:

125 215.441 Board of Administration; appointment of executive
126 director.—

127 (1) The State Board of Administration shall appoint an
128 executive director to manage and invest funds as directed by the
129 board. The executive director must have proven knowledge and
130 expertise in overseeing institutional investment portfolios, and
131 must have extensive experience in any two or more of the
132 following areas: domestic equity or fixed-income securities,
133 international equity or fixed-income securities, cash
134 management, alternative investments, managed futures, or real
135 estate investment trusts. The board may set additional
136 requirements for appointment.

137 (2) The appointment of the executive director ~~of the State~~
138 ~~Board of Administration~~ shall be subject to the approval by a
139 majority vote of the Board of Trustees of the State Board of
140 Administration, and the Governor must vote on the prevailing
141 side. Such appointment must be affirmed by the Investment
142 Advisory Council and reaffirmed in the same manner by the board
143 of trustees on an annual basis.

144 (3) The executive director is a state officer for purposes
145 of s. 112.3145.

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146 Section 3. Subsection (1) of section 215.442, Florida
147 Statutes, is amended to read:

148 215.442 Executive director; reporting requirements; public
149 meeting.—

150 (1) ~~Beginning October 2007 and quarterly thereafter,~~ The
151 executive director shall present to the Board of Trustees of the
152 State Board of Administration and the Investment Advisory
153 Council a quarterly report to include the following:

154 (a) The name of each equity and alternative investment in
155 which the State Board of Administration has invested for the
156 quarter.

157 (b) The industry category of each equity.

158 (c) The type and value of assets that have been downgraded
159 during the preceding quarter.

160 Section 4. Section 215.444, Florida Statutes, is amended to
161 read:

162 215.444 Investment Advisory Council.—

163 (1) There is created a nine-member ~~six-member~~ Investment
164 Advisory Council to review the investments made by the staff of
165 the Board of Administration and to make recommendations to the
166 board regarding investment policy, strategy, and procedures. The
167 council shall recommend asset allocations for funds held by the
168 board and shall approve all new product types considered for
169 investment by the board.

170 (2) The members of the council shall be appointed by the
171 board and shall be subject to confirmation by the Senate. The
172 members must include one member representing local governments,
173 one representative of a state employees' union in the Regular
174 Class, one representative of a teachers' union, one

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175 representative of a police union, one representative of a
 176 firefighters' union, and one beneficiary of the Florida
 177 Retirement System. These individuals shall possess special
 178 knowledge, experience, and familiarity with financial
 179 investments and portfolio management. Members shall be appointed
 180 for 4-year terms. A vacancy shall be filled for the remainder of
 181 the unexpired term. The council shall annually elect a chair and
 182 a vice chair from its membership. A member may not be elected to
 183 consecutive terms as chair or vice chair. Members of the council
 184 are state officers for purposes of s. 112.3145.

185 Section 5. Subsection (15) of section 215.47, Florida
 186 Statutes, is amended to read:

187 215.47 Investments; authorized securities; loan of
 188 securities.—Subject to the limitations and conditions of the
 189 State Constitution or of the trust agreement relating to a trust
 190 fund, moneys available for investments under ss. 215.44-215.53
 191 may be invested as follows:

192 (15) With no more, in the aggregate, than 10 percent of any
 193 fund in alternative investments, as defined in s.
 194 215.44(9)(c)1.a. ~~s. 215.44(8)(c)1.a.~~, through participation in
 195 the vehicles defined in s. 215.44(9)(c)1.b. ~~s. 215.44(8)(c)1.b.~~,
 196 or in securities or investments that are not publicly traded and
 197 are not otherwise authorized by this section.

198 Section 6. Section 215.475, Florida Statutes, is amended to
 199 read:

200 215.475 Investment policy statement.—

201 ~~(1)~~ In making investments for the System Trust Fund
 202 pursuant to ss. 215.44-215.53, the board shall make no
 203 investment which is not in conformance with the Florida

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204 Retirement System Defined Benefit Plan Investment Policy
205 Statement, hereinafter referred to as "the IPS," as developed by
206 the executive director and the Investment Advisory Council and
207 approved by the board. The IPS must include, among other items,
208 the investment objectives of the System Trust Fund; permitted
209 types of securities in which the board may invest; and
210 evaluation criteria necessary to measure the investment
211 performance of the fund. As required from time to time, the
212 executive director of the board may present recommended changes
213 in the IPS to the board and Investment Advisory Council for
214 approval.

215 ~~(2) Prior to any recommended changes in the IPS being~~
216 ~~presented to the board, the executive director of the board~~
217 ~~shall present such changes to the Investment Advisory Council~~
218 ~~for review. The council shall present the results of its review~~
219 ~~to the board prior to the board's final approval of the IPS or~~
220 ~~changes in the IPS.~~

221 Section 7. Section 215.4754, Florida Statutes, is created
222 to read:

223 215.4754 Ethics requirements for investment advisers and
224 managers.-

225 (1) The board shall adopt by rule standards of conduct
226 applicable to investment advisers and managers retained pursuant
227 to s. 215.44(2)(b).

228 (2) A contract under which an investment adviser or manager
229 renders financial services or advice to the board is voidable by
230 the board if the investment adviser or manager violates a
231 standard of conduct adopted under this section.

232 (3) An Investment Advisory Council member or such member's

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233 business organization or affiliate may not directly or
234 indirectly contract with or provide any services for the
235 investment of trust funds of the state during the time of such
236 member's service on the council or for 1 year thereafter.

237 Section 8. Section 215.4755, Florida Statutes, is created
238 to read:

239 215.4755 Disclosure requirements for investment advisers
240 and managers.-

241 (1) An investment adviser or manager retained pursuant to
242 s. 215.44(2) (b) shall disclose in writing to the board:

243 (a) Any relationship the investment adviser or manager has
244 with any party to a transaction with the board, other than a
245 relationship necessary to the investment or funds-management
246 services that the investment adviser or manager performs for the
247 board, if a prudent person could expect the relationship to
248 diminish the investment adviser's or manager's independence of
249 judgment in the performance of his or her responsibilities to
250 the board; and

251 (b) All direct or indirect pecuniary interests the
252 investment adviser or manager has in any party to a transaction
253 with the board, if the transaction is connected with any
254 financial advice or service the investment adviser or manager
255 provides to the board in connection with the management or
256 investment of funds pursuant to s. 215.44(1).

257 (2) The investment adviser or manager shall disclose a
258 relationship described in paragraph (1) (a) without regard to
259 whether the relationship is a direct, indirect, personal,
260 private, commercial, or business relationship.

261 (a) An investment adviser or manager retained pursuant to

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262 s. 215.44(2)(b) shall annually file a statement with the board
263 disclosing each relationship or pecuniary interest described by
264 this section. If no such relationship or pecuniary interest
265 existed during the disclosure period, the statement must
266 affirmatively state that fact.

267 (b) The annual statement shall be filed no later than
268 January 1 on a form prescribed by the board. The statement shall
269 cover the reporting period of the previous calendar year.

270 (c) The investment adviser or manager shall promptly file a
271 new or amended statement with the board whenever there is new
272 information to report under this section.

273 Section 9. Present subsections (9) and (10) of section
274 218.409, Florida Statutes, are renumbered as subsections (10)
275 and (11), respectively, and a new subsection (9) is added to
276 that section, to read:

277 218.409 Administration of the trust fund; creation of
278 advisory council.—

279 (9) The board shall create a participating investor council
280 to advise the board regarding the investment practices, internal
281 controls and risk assessment, and audit processes for funds
282 invested by the board pursuant to this part.

283 Section 10. This act shall take effect July 1, 2010.