AB-679 Public employees’ retirement: investments: security loans. (2017-2018)

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Assembly Bill No. 679

CHAPTER 198

An act to amend Section 20203 of the Government Code, relating to public employees’ retirement.

[Approved by Governor September 01, 2017. Filed with Secretary of State September 01, 2017.]

LEGISLATIVE COUNSEL'S DIGEST

AB 679, Cooley. Public employees’ retirement: investments: security loans.

The Public Employees’ Retirement Law (PERL) creates the Public Employees’ Retirement System (PERS) for the provision of pension benefits to members. PERL grants the Board of Administration of PERS exclusive control of and fiduciary responsibility for the investment of the Public Employees’ Retirement Fund, and authorizes the board to enter into specific types of security loan agreements, whereby a legal owner (the lender) agrees to lend specific marketable corporate or government securities for no more than one year, and the lender retains the right to collect from the borrower all dividends, interest, premiums, rights, and other distributions. Existing law grants the board the authority to enter into these agreements pursuant to specific provisions covering security loan agreements by state agencies.

This bill would delete the above reference to the security loan provisions for state agencies, thereby providing the board with separate authority to enter into security loan agreements. The bill would require a borrower to provide the board with collateral in the form of cash, United States government debt securities, or other specified forms of collateral, and would require that the amount of the collateral be at least 102% of the market value of the loaned securities or an amount consistent with market practice, whichever is greater. The bill would require the board to revalue the collateral to current market value on each business day or as frequently as industry practices require. The bill would prohibit the total market value of the loaned securities collateralized by marketable public equities and marketable international government bonds from exceeding 25% of the assets of the retirement fund.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 20203 of the Government Code is amended to read:

20203. Notwithstanding any other law, the board may enter into security loan agreements with respect to securities in which the board is authorized by law to invest subject to all of the following conditions:

(a) The borrower shall provide the board with collateral in the form of cash, United States government debt securities, debt obligations issued by United States government agencies, and United States government-sponsored enterprises, marketable public equity securities, or marketable international government bonds, provided that the amount of collateral shall be at least 102 percent of the market value of the loaned securities or an amount consistent with market practice, whichever is greater.

(b) The board shall maintain policies and procedures designed to administer the loan agreements consistent with Section 17 of Article XVI of the California Constitution.

(c) The board shall revalue the collateral to current market value on each business day or as frequently as industry practices require.

(d) The total market value of the loaned securities collateralized by marketable public equities and marketable international government bonds shall not exceed 25 percent of the assets of the retirement fund.