

SUBJECT: Public retirement systems' brokerage contracts

COMMITTEE: Pensions and Investments — favorable, without amendment

VOTE: 5 ayes — Ritter, Telford, McClendon, Pena, Rose
0 nays
2 absent — Grusendorf, Martinez Fischer

SENATE VOTE: On final passage, May 8 — 31-0, on Local and Uncontested Calendar

WITNESSES: No public hearing

BACKGROUND: Public retirement systems, including the Employees Retirement System and Teacher Retirement System, hold assets over a period of time to pay benefits to enrollees in the future. The management of those assets is governed by Government Code, ch. 802, which permits the systems to employ professional investment management services. While public retirement systems often employ brokerage firms, current law does not expressly authorize it.

DIGEST: SB 977 would permit a public retirement system to employ a brokerage firm for investment purposes. It could contract only with a brokerage firm that was registered with the Securities and Exchange Commission and the State Securities Board; was a member of a national securities exchange and of the Securities Investor Protection Corporation; and maintained a minimum net regulatory capital of \$200 million. The brokerage firm would not have discretionary authority and would be required to carry insurance in the amount equal to the amount of state assets held.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2003. It would apply to a contract entered into on or after that date and existing contracts would be considered in compliance if they met the criteria established by the bill.