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GO.GO.02646

Proposed Committee Substitute by the Committee on Governmental
Oversight and Accountability

A bill to be entitled

An act relating to the State Board of Administration;
amending s. 121.4501, F.S.; requiring that certain
investment products and approved providers conform
with the Public Employee Optional Retirement Program
Investment Policy Statement as approved by the
executive director of the board and approved by the
Investment Advisory Council; requiring that such
statement be presented to the council for approval;
amending s. 215.44, F.S.; requiring that the board
establish and maintain the salaries of its officers
and employees in a manner consistent with its
fiduciary duties; requiring that the council initiate
an investigation at specified intervals for specified
purposes; requiring that the council present the
results of such study to the board; authorizing the
board to delegate certain authority and duties to the
executive director; requiring that the board create an
audit committee for specified purposes; providing for
membership on the committee and term limits of
committee members; providing purposes and duties of
the committee; requiring that the board produce
certain financial statements on an annual basis and
report the information contained in such statements to
the Legislature; requiring that such statements be
audited by an independent third-party firm working
under the direction of the audit committee; amending



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28 s. 215.441, F.S.; requiring that the board appoint an
29 executive director; providing duties of the executive
30 director; providing requirements for appointment as
31 executive director; removing a requirement that the
32 Governor vote in favor of the selection of the
33 executive director; providing for the determination of
34 the executive director's compensation; providing for
35 the creation, operation, and membership of a search
36 committee for the purpose of selecting the executive
37 director; amending s. 215.442, F.S.; requiring that
38 the executive director present certain information
39 quarterly to the Investment Advisory Council; amending
40 s. 215.444, F.S.; requiring that the council meet with
41 the board's staff at specified intervals and provide a
42 quarterly report to the board's trustees; clarifying
43 the function of council members; expanding
44 prerequisites for membership on the council to include
45 knowledge of and experience with institutional
46 investments and fiduciary responsibilities; providing
47 that a council member is an officer, employee, or
48 agent of the state for specified purposes; requiring
49 that appointees to the council undergo specified
50 training; requiring that council members make
51 recommendations consistent with fiduciary
52 responsibilities applicable to the board; specifying
53 duties of the council; authorizing the council to
54 create subcommittees and direct the executive director
55 to enter into certain contracts; amending s. 215.475,
56 F.S.; conforming provisions to changes made by the



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57 act; creating s. 215.4754, F.S.; requiring that the
58 board adopt standards of conduct and disclosure;
59 amending s. 215.52, F.S.; authorizing the board to
60 implement certain policies, restrictions, or
61 guidelines; providing an effective date.
62

63 Be It Enacted by the Legislature of the State of Florida:
64

65 Section 1. Subsection (14) of section 121.4501, Florida
66 Statutes, is amended to read:

67 121.4501 Public Employee Optional Retirement Program.—

68 (14) INVESTMENT POLICY STATEMENT.—

69 (a) Investment products and approved providers selected for
70 the Public Employee Optional Retirement Program shall conform
71 with the Public Employee Optional Retirement Program Investment
72 Policy Statement, herein referred to as the "statement," as
73 developed by the executive director and approved by the
74 Investment Advisory Council and Trustees of the State Board of
75 Administration. The statement must include, among other items,
76 the investment objectives of the Public Employee Optional
77 Retirement Program, manager selection and monitoring guidelines,
78 and performance measurement criteria. As required from time to
79 time, the executive director of the state board may present
80 recommended changes in the statement to the board for approval.

81 (b) Before ~~Prior to~~ presenting the statement, or any
82 recommended changes thereto, to the state board, the executive
83 director of the board shall present such statement or changes to
84 the Investment Advisory Council for review and approval. The
85 council shall present the results of its review to the board



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86 prior to the board's final approval of the statement or changes
87 in the statement.

88 Section 2. Subsections (1) and (2) of section 215.44,
89 Florida Statutes, are amended to read:

90 215.44 Board of Administration; powers and duties in
91 relation to investment of trust funds.—

92 (1) Except when otherwise specifically provided by the
93 State Constitution and subject to any limitations of the trust
94 agreement relating to a trust fund, the Board of Administration,
95 hereinafter sometimes referred to as "trustees" or "board,"
96 composed of the Governor as chair, the Chief Financial Officer,
97 and the Attorney General, shall invest all the funds in the
98 System Trust Fund, as defined in s. 121.021(36), and all other
99 funds specifically required by law to be invested by the board
100 pursuant to ss. 215.44-215.53 to the fullest extent that is
101 consistent with the cash requirements, trust agreement, and
102 investment objectives of the fund. Notwithstanding any other law
103 to the contrary, the State Board of Administration may invest
104 any funds of any state agency or any unit of local government
105 pursuant to the terms of a trust agreement with the head of the
106 state agency or the governing body of the unit of local
107 government, which trust agreement shall govern the investment of
108 such funds, provided that the board shall approve the
109 undertaking of such investment before execution of the trust
110 agreement by the State Board of Administration. The funds and
111 the earnings therefrom are exempt from the service charge
112 imposed by s. 215.20. As used in this subsection, the term
113 "state agency" has the same meaning as that provided in s.
114 216.001, and the terms "governing body" and "unit of local



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115 government" have the same meaning as that provided in s.
116 218.403.

117 (2) (a) The board shall have the power to make purchases,
118 sales, exchanges, investments, and reinvestments for and on
119 behalf of the funds referred to in subsection (1), and it shall
120 be the duty of the board to see that moneys invested under the
121 provisions of ss. 215.44-215.53 are at all times handled in the
122 best interests of the state.

123 (b) Pursuant to s. 110.205, the State Board of
124 Administration shall establish and maintain the salaries and
125 benefits of its officers and employees in a manner consistent
126 with the board's fiduciary responsibility to recruit and retain
127 highly qualified and effective key personnel. Not less than
128 every 5 years, the Investment Advisory Council shall cause a
129 total compensation study to be conducted by a private consulting
130 firm having expertise in institutional investments salary and
131 benefit administration. The study shall be designed to determine
132 competitive salary ranges, other compensation, and benefits for
133 positions within the board based on comparable public-sector
134 peer investment entities. The Investment Advisory Council shall
135 present the total compensation study along with its
136 recommendations to the board, and such recommendations are
137 subject to review and ratification or reversal by the board. The
138 board may delegate to the executive director the authority and
139 duty to set staff salaries within the ranges approved by the
140 board.

141 (c) ~~(b)~~ In exercising investment authority pursuant to s.
142 215.47, the board may retain investment advisers or managers, or
143 both, external to in-house staff, to assist the board in



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144 carrying out the power specified in paragraph (a).

145 (d) The board shall create an audit committee to assist the
146 board in fulfilling its oversight responsibilities. The
147 committee shall consist of three members appointed by the board.
148 Members shall be appointed for 4-year terms. A vacancy shall be
149 filled for the remainder of the unexpired term. The committee
150 shall annually elect a chair and vice chair from its membership.
151 A member may not be elected to consecutive terms as chair or
152 vice chair. Persons appointed to the audit committee must have
153 relevant knowledge and expertise as determined by the board. The
154 audit committee shall serve as an independent and objective
155 party to monitor processes for financial reporting, internal
156 controls and risk assessment, audit processes, and compliance
157 with laws, rules, and regulations. The audit committee shall
158 direct the efforts of the board's independent external auditors
159 and the board's internal audit staff. The committee shall
160 periodically, but no less than quarterly, report to the
161 executive director and the board. The board shall produce a set
162 of financial statements for the Florida Retirement System
163 programs on an annual basis, which shall be reported to the
164 Legislature and audited by a commercial independent third-party
165 audit firm under the direction of the audit committee.

166 Section 3. Section 215.441, Florida Statutes, is amended to
167 read:

168 215.441 Board of Administration; appointment of executive
169 director.—

170 (1) The board shall appoint an executive director to manage
171 and invest funds as directed by the board. The executive
172 director shall, at a minimum, possess substantial experience,



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173 proven knowledge, and expertise in the oversight of
174 institutional investment portfolios and must meet any other
175 requirements determined by the board to be necessary to the
176 overall management and investment of funds.

177 (2) The appointment of the executive director of the State
178 Board of Administration shall be subject to the approval by a
179 majority vote of the Board of Trustees of the State Board of
180 Administration, ~~and the Governor must vote on the prevailing~~
181 ~~side.~~ Such appointment must be reaffirmed in the same manner by
182 the board of trustees on an annual basis.

183 (3) The compensation for the executive director shall be
184 determined by the board, consistent with the requirements of s.
185 215.44(2)(b).

186 (4) Before the appointment of the executive director, the
187 board shall appoint a search committee to develop minimum
188 position requirements, review applications, and make
189 recommendations to the board with regard to qualified applicants
190 for the position. At a minimum, the search committee shall
191 consist of at least three members of the Investment Advisory
192 Council.

193 Section 4. Subsection (1) of section 215.442, Florida
194 Statutes, is amended to read:

195 215.442 Executive director; reporting requirements; public
196 meeting.—

197 (1) Beginning October 2007 and quarterly thereafter, the
198 executive director shall present to the Board of Trustees and
199 the Investment Advisory Council of the State Board of
200 Administration a quarterly report to include the following:

201 (a) The name of each equity in which the State Board of



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202 Administration has invested for the quarter.

203 (b) The industry category of each equity.

204 Section 5. Section 215.444, Florida Statutes, is amended to
205 read:

206 215.444 Investment Advisory Council.—

207 (1) There is created a six-member Investment Advisory
208 Council to review the investments made by the staff of the Board
209 of Administration and to make recommendations to the board
210 regarding investment policy, strategy, and procedures. The
211 council shall meet with staff of the board no less than
212 quarterly and shall provide a quarterly report directly to the
213 trustees at a meeting of the board.

214 (2) The members of the council shall be appointed by the
215 board as a resource to the trustees and shall be subject to
216 confirmation by the Senate. These individuals shall possess
217 special knowledge, experience, and familiarity with ~~financial~~
218 ~~investments and portfolio management,~~ institutional investments,
219 and fiduciary responsibilities. Members shall be appointed for
220 4-year terms. A vacancy shall be filled for the remainder of the
221 unexpired term. The council shall annually elect a chair and a
222 vice chair from its membership. A member may not be elected to
223 consecutive terms as chair or vice chair.

224 (3) In carrying out the provisions of this section, a
225 member of the council is an officer, employee, or agent of the
226 state for purposes of the state's waiver of sovereign immunity
227 contained in s. 768.28. Appointees to the council must undergo
228 regular fiduciary training as required by the board, and must
229 complete an annual conflict disclosure statement. In carrying
230 out their duties, council members must make recommendations



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231 consistent with the fiduciary standards applicable to the board.

232 (4) The duties of the council shall include approval of the
233 investment policy statements of the board, participation in the
234 selection process regarding an executive director, engaging
235 periodic compensation studies and providing recommendations
236 thereon, meeting quarterly to review the investment performance
237 of funds, and any other duties as determined by the board. The
238 council may create subcommittees as necessary to carry out its
239 duties and responsibilities and may direct the executive
240 director to enter into contracts with independent compensation
241 consultants.

242 Section 6. Subsection (1) of section 215.475, Florida
243 Statutes, is amended to read:

244 215.475 Investment policy statement.—

245 (1) In making investments for the System Trust Fund
246 pursuant to ss. 215.44-215.53, the board shall make no
247 investment which is not in conformance with the Florida
248 Retirement System Defined Benefit Plan Investment Policy
249 Statement, hereinafter referred to as "the IPS," as developed by
250 the executive director and approved by the Investment Advisory
251 Council and the board. The IPS must include, among other items,
252 the investment objectives of the System Trust Fund; permitted
253 types of securities in which the board may invest; and
254 evaluation criteria necessary to measure the investment
255 performance of the fund. As required from time to time, the
256 executive director of the board may present recommended changes
257 in the IPS to the Investment Advisory Council and the board for
258 approval.

259 Section 7. Section 215.4754, Florida Statutes, is created



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260 to read:

261 215.4754 Ethics and disclosure requirements for investment
262 advisers and managers.—The board shall adopt a policy outlining
263 standards of conduct and disclosure applicable to investment
264 advisers and managers retained pursuant to s. 215.44(2)(c).

265 Section 8. Section 215.52, Florida Statutes, is amended to
266 read:

267 215.52 Rules and regulations.—The board shall have the
268 power and authority to make reasonable rules, policies, and
269 regulations necessary or appropriate to carry out the provisions
270 of ss. 215.44-215.53. To ensure full transparency and
271 accountability in fulfillment of its fiduciary duties, the board
272 may implement any policies, restrictions, or guidelines
273 necessary to the application of relevant provisions, including,
274 but not limited to, policy in the areas of compliance, ethics,
275 training, audit procedures, service providers, vendors, and
276 third parties who do business with the board.

277 Section 9. This act shall take effect July 1, 2010.