



Senate

General Assembly

File No. 530

February Session, 2010

Senate Bill No. 431

Senate, April 13, 2010

The Committee on Finance, Revenue and Bonding reported through SEN. DAILY of the 33rd Dist., Chairperson of the Committee on the part of the Senate, that the bill ought to pass.

**AN ACT CONCERNING COLLATERAL FOR SECURITIES LENDING
BY THE STATE TREASURER.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subsection (a) of section 3-13d of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective July*
3 *1, 2010*):

4 (a) Notwithstanding any other provision in the general statutes, [or
5 elsewhere to the contrary,] the Treasurer shall invest as much of the
6 state's trust funds as are not required for current disbursements in
7 accordance with the provisions of section 45a-203 or the provisions of
8 this part. Notwithstanding the provisions of this section or any other
9 provision in the general statutes, [or elsewhere to the contrary,] the
10 Treasurer shall not invest more than sixty per cent of the market value
11 of each such trust fund in common stock, except in the event of a stock
12 market fluctuation that causes the common stock percentage to
13 increase and the Treasurer deems it in the best interest of such trust
14 fund to maintain a higher percentage of equities, provided the

15 Treasurer shall not allow the market value of each such trust fund in
16 common stock to exceed sixty-five per cent for more than six months
17 after such fluctuation occurs. On and after January 1, 2001, or on and
18 after the first adoption of an investment policy statement under section
19 3-13b, whichever is later, all trust fund investments shall be made in
20 accordance with the investment policy statement adopted under
21 section 3-13b. In order to increase the income for each such combined
22 investment fund established pursuant to section 3-31b, the Treasurer
23 may enter into repurchase agreements or lend securities from each
24 such fund, provided that at the time of the execution of the repurchase
25 agreement or the loan at least one hundred per cent of the market
26 value of the security sold or lent shall be received as consideration in
27 the form of cash or securities guaranteed by (1) the United States
28 government or any agency of the United States government, [in the
29 case of a repurchase agreement or secured by cash or such securities in
30 the case of a loan] or (2) a sovereign country that is a participant in the
31 General Arrangements to Borrow, known generally as the Group of
32 Ten, or G10, and is rated "AA" or better by at least one nationally-
33 recognized statistical rating organization. At all times during the term
34 of each such repurchase agreement or the term of each such loan the
35 consideration received or the collateral shall be equal to not less than
36 ninety-five per cent of the full market value of the security and said
37 consideration received or said collateral shall not be more than one
38 hundred thousand dollars less than the full market value of the
39 security. The Treasurer may sell call options which would give the
40 holders of such options the right to purchase securities held by the
41 Treasurer at the date the call is sold for investment purposes, under
42 such terms and conditions as the Treasurer may determine. Among the
43 factors to be considered by the Treasurer with respect to all securities
44 may be the social, economic and environmental implications of
45 investments of trust funds in particular securities or types of securities.
46 In the investment of the state's trust funds the Treasurer shall consider
47 the implications of any particular investment in relation to the foreign
48 policy and national interests of the United States.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2010</i>	3-13d(a)

FIN *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 11 \$	FY 12 \$
Treasurer	State Employees Retirement Fund & Teachers' Retire - Revenue Gain	2 million	2 million

Municipal Impact: None

Explanation

Expanding the category of collateral that may serve as a consideration of the lending of securities from the Combined Investment Trust Funds (the state pension fund) could result in an estimated \$2 million in additional investment income for the Funds, depending on financial market conditions.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

Sources: *Office of the State Treasurer*

OLR Bill Analysis**SB 431*****AN ACT CONCERNING COLLATERAL FOR SECURITIES LENDING BY THE STATE TREASURER.*****SUMMARY:**

The bill allows the state treasurer to accept securities guaranteed by certain foreign countries as collateral for loans and repurchase agreements involving securities owned by the state's trust funds, including the state employees', teachers', and municipal employees' retirement funds. To be acceptable, the foreign securities must be (1) guaranteed by a sovereign country that participates in the so-called "G 10" and (2) rated AA or better by at least one nationally recognized statistical rating organization. Current law permits the treasurer to accept only cash or securities guaranteed by the U. S. government or one of its agencies.

The bill maintains existing requirements that (1) when the loan or repurchase agreement is executed, the collateral equal 100% of the market value of the securities sold or lent and (2) during the term of the loan or agreement, the value of the collateral not fall below 95% of, and \$100,000 less than, the value of the securities sold or lent.

EFFECTIVE DATE: July 1, 2010

BACKGROUND***Repurchase Agreement***

A repurchase agreement or "repo" is a contract under which a seller of securities agrees to buy them back at a specified time and price. A repo is similar to a secured loan, in which the buyer provides funds to the seller and holds the security as collateral to protect against default.

"G 10" Countries

Eleven countries currently participate in the General Agreements to Borrow or G 10: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. The countries consult and cooperate on economic, monetary, and financial matters.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 48 Nay 0 (03/25/2010)