

SENATE BILL REPORT

SB 6192

As Passed Senate, February 11, 1998

Title: An act relating to the operation of the state investment board.

Brief Description: Providing for the operation of the state investment board.

Sponsors: Senators Sellar, Snyder and Winsley; by request of State Investment Board.

Brief History:

Committee Activity: Financial Institutions, Insurance & Housing: 1/21/98, 1/28/98 [DP, DNP].

Passed Senate, 2/11/98, 48-0.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, INSURANCE & HOUSING

Majority Report: Do pass.

Signed by Senators Winsley, Chair; Benton, Vice Chair; Hale, Kline and Prentice.

Minority Report: Do not pass.

Signed by Senator Heavey.

Staff: Dave Cheal (786-7576)

Background: The State Investment Board was created in 1981. The board has the responsibility for safeguarding and investing public trust funds and retirement funds.

The board is held to a certain prudence standard in its investment activities. The current standard requires the board to make investments using the same judgment and care that a prudent individual would use in managing his or her own private affairs, not for speculation but for investment, considering probable safety and probable income return.

The current standard could be interpreted as applying to each individual investment on a stand-alone basis without regard to consideration of the entire portfolio of investments.

Investments must be diversified to the extent that no single holding may exceed 3 percent of the cost or 6 percent of the market value of the total assets of any fund.

Summary of Bill: The prudence standard, or the standard of judgment and care, is modified to allow contemplation of the entire portfolio and an integrated investment strategy. In addition, the board is directed to use the care, skill, prudence and diligence of a prudent person acting in a like capacity familiar with such matters. This standard would appear to be a measurement against other investment fund managers rather than individuals.

The diversification requirements of current law are moved to the section describing the prudence standard. Other technical changes are made to reflect the new language and relocation of the diversification requirement.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: A more appropriate and realistic standard of judgment and care is needed for the work of the Investment Board, allowing it to measure performance in a logical manner, and to diversify appropriately.

Testimony Against: None.

Testified: James Parker, State Investment Board.