



**ASSEMBLY SUBSTITUTE AMENDMENT 1,  
TO 1995 ASSEMBLY BILL 664**

January 17, 1996 - Offered by JOINT COMMITTEE ON FINANCE.

1 **AN ACT to repeal** 25.18 (1) (L); **to renumber and amend** 25.50 (5); **to amend**  
2 13.94 (1) (df), 13.94 (1s) (c) 3., 15.07 (2) (a), 15.76 (intro.), 19.42 (10) (L) and (13)  
3 (k), 25.156 (4), 25.16 (1), 25.16 (2), 25.16 (4), 25.17 (intro.), 25.17 (51), 25.18 (1)  
4 (intro.), 25.18 (2) (intro.) and 25.18 (2) (e); **to repeal and recreate** 25.17 (14m);  
5 and **to create** 15.07 (2) (k), 15.76 (1r), 25.156 (2m), 25.156 (8), 25.165, 25.167,  
6 25.17 (14g), 25.17 (14r), 25.17 (51m), 25.183, 25.50 (5) (a) to (d) and 25.50 (5m)  
7 of the statutes; **relating to:** legislative oversight of the investment board,  
8 structure and composition of the investment board, regulation of certain  
9 investments by the investment board, granting rule-making authority and  
10 making an appropriation.

***The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:***

11 **SECTION 1.** 13.94 (1) (df) of the statutes is amended to read:  
12 13.94 (1) (df) Annually, perform a financial audit of the investment board,  
13 including an assessment of the fair presentation of the financial statements and an  
14 evaluation of accounting controls and accounting records the internal control

1 structure of the board. As part of the financial audit, the bureau shall identify  
2 certain statutes and policies and guidelines adopted by the board and shall  
3 determine the extent of compliance by the board with the statutes, policies and  
4 guidelines. Biennially, the bureau shall conduct a performance evaluation audit of  
5 the investment board that includes an audit of the board's policies and management  
6 practices.

7 **SECTION 2.** 13.94 (1s) (c) 3. of the statutes is amended to read:

8 13.94 (1s) (c) 3. The investment board for the cost of the any audit required to  
9 be performed under sub. (1) (df).

10 **SECTION 3.** 15.07 (2) (a) of the statutes is amended to read:

11 15.07 (2) (a) The chairperson and vice chairperson of the investment board  
12 shall be designated elected biennially by the governor from among the members  
13 appointed under s. 15.76 (2) who have had at least 10 years' experience in making  
14 investments.

15 **SECTION 4.** 15.07 (2) (k) of the statutes is created to read:

16 15.07 (2) (k) The secretary of administration may not serve as chairperson of  
17 the investment board.

18 **SECTION 5.** 15.76 (intro.) of the statutes is amended to read:

19 **15.76 Investment board; creation.** (intro.) There is created a state of  
20 Wisconsin investment board, to be known for statutory purposes as the investment  
21 board. The investment board shall consist of 8 members, as follows the following  
22 members:

23 **SECTION 6.** 15.76 (1r) of the statutes is created to read:

24 15.76 (1r) One member appointed for a 6-year term, who is a representative  
25 of a local government that participates in the local government pooled-investment

1 fund under s. 25.50. The member shall be employed by the local government in a  
2 finance position and have had at least 10 years of financial experience, but may not  
3 be an elected official. If the member appointed under this subsection loses the status  
4 upon which the appointment was based, he or she shall cease to be a member of the  
5 investment board.

6 **SECTION 7.** 19.42 (10) (L) and (13) (k) of the statutes are amended to read:

7 19.42 **(10)** (L) The executive director, executive assistant to the executive  
8 director, internal auditor, chief investment officer and investment directors of the  
9 investment board.

10 **(13)** (k) The executive director, executive assistant to the executive director,  
11 internal auditor, chief investment officer and investment directors of the investment  
12 board.

13 **SECTION 8.** 25.156 (2m) of the statutes is created to read:

14 25.156 **(2m)** The investment board shall employe an internal auditor, who shall  
15 serve outside the classified service. The board shall fix the compensation of the  
16 internal auditor.

17 **SECTION 9.** 25.156 (4) of the statutes is amended to read:

18 25.156 **(4)** The members of the board shall promulgate rules restricting the  
19 executive director, internal auditor, chief investment officer, investment directors  
20 and employes from having financial interest, directly or indirectly, in firms or  
21 corporations providing services to the department and governing the receipt of gifts  
22 or favors therefrom, and also governing personal investments of all employes  
23 including the executive director, internal auditor, chief investment officer and  
24 investment directors to prevent conflicts of interest.

25 **SECTION 10.** 25.156 (8) of the statutes is created to read:

1           25.156 (8) The investment board shall keep full minutes of its proceedings.

2           **SECTION 11.** 25.16 (1) of the statutes is amended to read:

3           25.16 (1) The executive and administrative functions of the investment board,  
4           except for the functions performed by the internal auditor under s. 25.165 (2), shall  
5           be vested in an executive director, who shall perform the functions of executive  
6           director in conformity with the requirements of the members of the board and in  
7           accordance with policies, principles and directives determined by the members of the  
8           board.

9           **SECTION 12.** 25.16 (2) of the statutes is amended to read:

10          25.16 (2) The Subject to authorization under s. 16.505, the executive director  
11          may appoint one division administrator and investment directors and shall appoint  
12          a chief investment officer and all other employes necessary to carry out the functions  
13          of the investment board, except that the investment board shall appoint the internal  
14          auditor and shall participate in the selection of the chief investment officer and  
15          investment directors and the internal auditor shall appoint his or her staff. The  
16          executive director shall appoint all employes outside the classified service, except  
17          blue collar and clerical employes. Neither the executive director, the internal  
18          auditor, the chief investment officer, any investment director nor any other employe  
19          of the board shall have any financial interest, either directly or indirectly, in any firm  
20          engaged in the sale or marketing of real estate or investments of any kind, nor shall  
21          any of them render investment advice to others for remuneration.

22          **SECTION 13.** 25.16 (4) of the statutes is amended to read:

23          25.16 (4) The executive director shall take the official oath and the executive  
24          director, chief investment officer and each investment director shall file a bond for

1 the faithful performance of that person's duties in such amount and with such  
2 sureties as the members of the board require.

3 **SECTION 14.** 25.165 of the statutes is created to read:

4 **25.165 Internal auditor.** (1) There is created in the investment board an  
5 internal audit subunit, under the supervision of the internal auditor. The internal  
6 auditor shall report directly to the board and, subject to authorization under s.  
7 16.505, shall appoint all employes necessary to carry out the duties of the internal  
8 auditor. The internal auditor shall appoint all employes outside the classified  
9 service, except blue collar and clerical employes. The internal auditor shall fix the  
10 compensation of all employes appointed by the internal auditor, subject to  
11 restrictions set forth in the compensation plan under s. 230.12 or any applicable  
12 collective bargaining agreement in the case of employes in the classified service, but  
13 the investment board may provide for bonus compensation to employes in the  
14 unclassified service as authorized under s. 25.156 (6).

15 (2) The internal auditor may review any activity, information or investment of  
16 the board and have access to records of the board and any external party under  
17 contract with the board and shall do all of the following:

18 (a) Plan and conduct audit activities, risk assessments, research projects and  
19 management reviews under the direction of the board and in accordance with  
20 policies, principles and directives determined by the board.

21 (b) Coordinate and assist with external audits and reviews of the board.

22 (c) Monitor for compliance with applicable legal requirements and with the  
23 board's contractual agreements any bank, savings and loan association, savings  
24 bank or credit union with which the board has entered into a custodial agreement  
25 under s. 25.17 (11); any investment advisers with which the board has contracted to

1 manage and control board assets under s. 25.18 (2) (e); and any other external parties  
2 with which the board has contracted to provide investment services to the board.

3 **SECTION 15.** 25.167 of the statutes is created to read:

4 **25.167 Chief investment officer.** Under the supervision of the executive  
5 director, the chief investment officer shall do all of the following:

6 (1) Monitor activities of the investment directors for compliance with the  
7 board's investment policies and guidelines in investment decisions and approve  
8 unusual transactions, as defined by the board.

9 (2) Develop and implement operating procedures that are intended to ensure  
10 that the investment policies and guidelines of the board are followed.

11 (3) Ensure that investments are completely and accurately reported on all  
12 management and financial reports and that any information requested by the board  
13 is provided to the board on a timely basis.

14 **SECTION 16.** 25.17 (intro.) of the statutes is amended to read:

15 **25.17 Powers and duties of board.** (intro.) The "State of Wisconsin  
16 Investment Board" shall be a body corporate with power to sue and be sued in said  
17 name. The board shall have a seal with the words, "State of Wisconsin Investment  
18 Board". The Subject to s. 25.183, the board shall:

19 **SECTION 17.** 25.17 (14g) of the statutes is created to read:

20 25.17 (14g) Annually, on or before January 1, submit to the joint legislative  
21 audit committee, to the joint committee on finance and to the chief clerk of each  
22 house, for distribution to the appropriate standing committees under s. 13.172 (3),  
23 a report of the board's annual investment goals and long-term investment  
24 strategies. The report shall specify any change in the annual investment goals and  
25 long-term investment strategies from those in the previous year.

1           **SECTION 18.** 25.17 (14m) of the statutes is repealed and recreated to read:

2           25.17 (**14m**) Annually, on or before March 31, submit to the joint legislative  
3           audit committee, to the joint committee on finance and to the chief clerk of each  
4           house, for distribution to the appropriate standing committees under s. 13.172 (3),  
5           a report including all of the following:

6           1. An assessment of the board's progress in meeting its annual investment  
7           goals established in the report under sub. (14g).

8           2. Information on the types of investments held by the board, including the  
9           market values of the investments and the degree of risk associated with the  
10          investments, the board's use of derivatives, as defined in s. 25.183 (1) (a), any  
11          ventures by the board into new markets, any use of new investment instruments by  
12          the board and a comparison of the investment performance of the board to that  
13          achieved by a peer group of public and private entities that invest similar-sized  
14          funds.

15          3. A discussion of the amounts and categories of investments made within the  
16          state, including the amounts and categories of investments described, and progress  
17          in meeting the objectives of the plan submitted, under sub. (70).

18          **SECTION 19.** 25.17 (14r) of the statutes is created to read:

19          25.17 (**14r**) Upon adopting any change in the board's investment policies or  
20          guidelines, submit to the joint legislative audit committee, to the joint committee on  
21          finance and to the chief clerk of each house, for distribution to the appropriate  
22          standing committees under s. 13.172 (3), a report summarizing the change in the  
23          investment policies or guidelines.

24          **SECTION 20.** 25.17 (51) of the statutes is amended to read:

1           25.17 **(51)** Annually, have the legislative audit bureau conduct a financial audit  
2 ~~to include, including an assessment of the fair presentation of the financial~~  
3 ~~statements and an evaluation of accounting controls and accounting records~~ the  
4 internal control structure of the board. As part of the financial audit, the legislative  
5 audit bureau shall identify certain statutes and policies and guidelines adopted by  
6 the board and shall determine the extent of compliance by the board with the  
7 statutes, policies and guidelines. The board shall reimburse the legislative audit  
8 bureau for the cost of audits required to be performed under this subsection.

9           **SECTION 21.** 25.17 (51m) of the statutes is created to read:

10           25.17 **(51m)** Biennially, have the legislative audit bureau conduct a  
11 performance evaluation audit that includes an audit of the board's policies and  
12 management practices. The board shall reimburse the legislative audit bureau for  
13 the cost of audits required to be performed under this subsection.

14           **SECTION 22.** 25.18 (1) (intro.) of the statutes is amended to read:

15           25.18 **(1)** (intro.) In addition to the powers and duties enumerated in s. 25.17,  
16 but subject to s. 25.183, the investment board may:

17           **SECTION 23.** 25.18 (1) (L) of the statutes is repealed.

18           **SECTION 24.** 25.18 (2) (intro.) of the statutes is amended to read:

19           25.18 **(2)** (intro.) In addition to the powers set forth in sub. (1) and s. 25.17, but  
20 subject to s. 25.183, the investment board may:

21           **SECTION 25.** 25.18 (2) (e) of the statutes is amended to read:

22           25.18 **(2)** (e) Contract with and delegate to investment advisers the  
23 management and control over assets from any fund or trust delivered to such  
24 investment advisers for investment in real estate, mortgages, equities, debt of  
25 foreign corporations and debt of foreign governments, and pay such advisers fees



1 from the current income of the fund or trust being invested. No more than ~~10%~~ 20%  
2 of the total assets of the fixed retirement investment trust or ~~10%~~ 20% of the total  
3 assets of the variable retirement investment trust may be delivered to investment  
4 advisers. The board shall set performance standards for such investment advisers,  
5 monitor such investments to determine if performance standards are being met and  
6 if an investment adviser does not consistently meet the performance standards then  
7 terminate the contract with such investment adviser.

8 **SECTION 26.** 25.183 of the statutes is created to read:

9 **25.183 Certain investments prohibited. (1) DEFINITIONS.** In this section:

10 (a) "Derivative" means any financial contract or other instrument that derives  
11 its value from the value or performance of any security, currency exchange rate or  
12 interest rate or of any index or group of any securities, currency exchange rates or  
13 interest rates, but does not include any of the following:

14 1. Any security that is traded on a national securities exchange or on an  
15 automated interdealer quotation system sponsored by a securities association  
16 registered under 15 USC 78o-3, et seq.

17 2. Any forward contract which has a maturity at the time of issuance not  
18 exceeding 270 days.

19 3. Any contract of sale of a commodity, as defined under 7 USC 2, for future  
20 delivery, or any option on such a contract, traded or executed on a designated contract  
21 market and subject to regulation under 7 USC 1 to 26.

22 4. Any security of an open-end management investment company or  
23 investment trust, if the investment company or investment trust is registered under  
24 15 USC 80a-1 to 80a-64.

25 5. Any deposit held by a financial institution.

1           6. Any investment specifically authorized under s. 25.17 (3) (b) and (ba).

2           6e. Any collateralized mortgage obligation or other asset-backed security  
3 which either has one of the 2 highest ratings given by a nationally recognized rating  
4 service or is backed or collateralized by insured instruments, guarantees or pledges  
5 of the federal government, this state or an agency of the federal government or this  
6 state.

7           6m. Any transaction permitted under s. 25.18 (1) (n), if all of the following  
8 conditions are met at the time the transaction is entered into:

9           a. The counterparty to the transaction is rated in, or has outstanding long-term  
10 debt which is rated in, one of the 2 highest ratings given by a nationally recognized  
11 rating service.

12           b. The transaction is used only for specified hedging or interest rate risk  
13 reduction purposes.

14           c. All of the board's payment obligations under the transaction are fully backed  
15 by distinctly identified assets held in the state investment fund.

16           7. Any financial contract or instrument that the board determines, by rule, is  
17 not a derivative.

18           (b) "Reverse repurchase agreement" means an agreement for the sale of  
19 securities by the board under which the board will repurchase those securities on or  
20 before a specified date and for a specified amount.

21           **(2) DERIVATIVE INVESTMENTS.** After the effective date of this subsection ....  
22 [revisor inserts date], the board may not purchase or acquire any derivative in the  
23 state investment fund except in accordance with rules promulgated by the board.  
24 Rules promulgated under this subsection may not permit the purchase or acquisition  
25 of derivatives in the state investment fund unless the purchase or acquisition is

1 made for the purpose of reducing risk of price changes or of interest rate or currency  
2 exchange rate fluctuations with respect to investments held or to be held by the  
3 board.

4 **(3) REVERSE REPURCHASE AGREEMENTS.** After the effective date of this subsection  
5 .... [revisor inserts date], the board may not enter into any reverse repurchase  
6 agreement unless the repurchase of securities under the agreement is required to  
7 occur no later than the next business day.

8 **SECTION 27.** 25.50 (5) of the statutes is renumbered 25.50 (5) (intro.) and  
9 amended to read:

10 25.50 **(5) INVESTMENT POLICIES.** (intro.) The investment board shall formulate  
11 policies for the investment and reinvestment of moneys in the fund and the  
12 acquisition, retention, management and disposition of such investments. The board  
13 shall provide a copy of the investment policies, together with any guidelines adopted  
14 by the board to direct staff investment activity, to each local government having an  
15 investment in the fund upon the local government's request and at least annually to  
16 all investors. The board shall distribute at least annually performance information  
17 over the preceding one-year, 5-year and 10-year periods, compared with  
18 appropriate indices or benchmarks in the private sector. The investment policies  
19 shall include all of the following:

20 **SECTION 28.** 25.50 (5) (a) to (d) of the statutes are created to read:

21 25.50 **(5)** (a) Any types of prohibited investments.

22 (b) Any restrictions on allocation of assets among various asset types.

23 (c) Credit standards for private companies in which the fund may invest.

24 (d) Dollar or percentage limits on investments in a single company or bank.

25 **SECTION 29.** 25.50 (5m) of the statutes is created to read:

1           25.50 **(5m)** MONTHLY REPORTING REQUIREMENTS. (a) The board, in cooperation  
2 with the department of administration, shall provide information necessary for the  
3 state treasurer to provide a monthly report to each local government having an  
4 investment in the fund. The board shall use all reasonable efforts to provide the  
5 information to the state treasurer in time to allow the treasurer to mail or  
6 electronically transmit the report to the local government no later than 6 business  
7 days after the end of the month covered by the report. The report shall include  
8 information on the fund's earnings for the month, with comparison to appropriate  
9 indices or benchmarks in the private sector.

10           (b) Upon request of any local government having an investment in the fund,  
11 the board shall provide a summary of securities held by the fund, including for each  
12 type of security, its cost, current value and, in the case of debt instruments, the  
13 average maturity. The board shall provide the information as soon as practicable  
14 after receiving the request.

15           **SECTION 30. Nonstatutory provisions.**

16           (1) ALTERNATIVE INSURANCE ARRANGEMENTS FOR THE LOCAL GOVERNMENT-POOLED  
17 INVESTMENT FUND. No later than the first day of the 2nd month beginning after  
18 publication, the investment board shall report to the joint legislative audit  
19 committee and to the joint committee on finance on alternative insurance  
20 arrangements for the local government pooled-investment fund under section 25.50  
21 of the statutes.

22           (2) SUBMISSION OF INVESTMENT BOARD REPORTS.

23           (a) Notwithstanding the deadline for the submission of the report of the  
24 investment board's annual investment goals and long-term investment strategies  
25 that is specified in section 25.17 (14g) of the statutes, as created by this act, the

1 investment board, for the 1996 calendar year, shall submit the report on or before the  
2 first day of the 2nd month beginning after publication.

3 (b) Notwithstanding the deadline for the submission of the report of the  
4 investment board that is specified in section 25.17 (14m) of the statutes, as affected  
5 by this act, the investment board shall submit the report for 1995 on or before March  
6 31, 1996, or on or before the first day of the 2nd month beginning after publication,  
7 whichever is later.

8 (3) INVESTMENT BOARD OFFICERS. The officers of the investment board  
9 designated by the governor under section 15.07 (2) (a), 1993 stats., shall cease to hold  
10 the designated offices on the effective date of this subsection.

11 **SECTION 31. Appropriation changes.**

12 (1) INTERNAL AUDITOR. In the schedule under section 20.005 (3) of the statutes  
13 for the appropriation to the investment board under section 20.536 (1) (k) of the  
14 statutes, as affected by the acts of 1995, the dollar amount is increased by \$72,000  
15 for fiscal year 1995-96 and the dollar amount is increased by \$210,900 for fiscal year  
16 1996-97 to increase the authorized FTE positions for the investment board by 3.0 PR  
17 positions on April 1, 1996, for the performance of the functions of the internal auditor.

18 (2) CHIEF INVESTMENT OFFICER. In the schedule under section 20.005 (3) of the  
19 statutes for the appropriation to the investment board under section 20.536 (1) (k)  
20 of the statutes, as affected by the acts of 1995, the dollar amount is increased by  
21 \$42,500 for fiscal year 1995-96 and the dollar amount is increased by \$144,100 for  
22 fiscal year 1996-97 to increase the authorized FTE positions for the investment  
23 board by 1.0 PR position on April 1, 1996, for the performance of the functions of the  
24 chief investment officer.

