

# HOUSE RESEARCH

## Bill Summary

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### Overview

Specifies conditions under which the State Board of Investment (SBI) must divest equity and debt holdings (and not make new investments) in companies subject to federal sanctions because of their active business operations in Iran.

#### Section

#### 1 Investment in Iran.

**Subd. 1. Definitions.** Defines terms used in this section. The “direct holdings” subject to divestment are defined to be publicly traded equity and debt securities.

**Subd. 2. Identification of scrutinized companies.** Requires the State Board of Investment (SBI) to make its best efforts to identify scrutinized companies in which the SBI has direct holdings and to assemble (and update quarterly) a list of these companies. A “scrutinized company” is a company that has active business operations that are subject to sanctions under the federal Iran Sanctions Act, and that involve assets or investments that meet or exceed the \$20 million threshold in that federal law. This does not include retail sale of gasoline or related products.

**Subd. 3. Engagement of scrutinized companies.** Specifies procedures that the SBI must use with respect to scrutinized companies:

- Within 90 days of identifying a company as a scrutinized company, the SBI must send a written notice informing the company of its scrutinized company status and that it may become subject to divestment. The notice must offer the company the opportunity to clarify its operations and shall encourage the company to cease its scrutinized business operations to avoid divestment.
- If, within 90 days the company publicly announces its commitment to substantial action with respect to Iran, the company shall be removed from the scrutinized companies list and this section will not apply, unless the company resumes active business operations in Iran.

**Subd. 4. Divestment.** Requires that if a company continues to have scrutinized business operations 90 days after receiving notice from the SBI (and only while the company continues to have scrutinized business operations) the SBI must sell all publicly traded securities of the company as follows:

- At least 50 percent of the holdings must be sold within 9 months of the company's first appearance on the scrutinized companies list;
- 100 percent of the holdings must be sold within 15 months.

Provides that if a company that ceased scrutinized business operations after receiving a notice from the SBI resumes these operations, the company will be placed back on the scrutinized companies list.

**Subd. 5. Prohibition on new acquisitions.** Forbids the SBI from acquiring securities of companies on the scrutinized companies list, except as otherwise provided in this section.

**Subd. 6. Relation to federal action.** Provides that if the federal government excludes a company from federal sanctions relating to Iran, the company is exempt from this section.

**Subd. 7. Exemptions.** Provides that this section does not require the SBI to act if SBI determines that the action is inconsistent with its fiduciary responsibilities. Requires the SBI to report its reasoning to the Legislative Commission on Pensions and Retirement and chairs of legislative committees with jurisdiction over SBI. Provides that if the board determines that divestment is inconsistent with fiduciary duties, the board must to the extent feasible sponsor, cosponsor or support shareholder resolutions requiring scrutinized companies in which the board owns equity securities to cease scrutinized business operations.

Provides that divestment/prohibition on new investment does not apply to: companies primarily engaged in supplying goods or services intended to relieve human suffering in Iran; companies primarily engaged in promoting health, education, or journalists activities in Iran; and United State companies authorized by the federal government to have active business operations in Iran.

**Subd. 8. Excluded securities.** Provides that divestment/prohibition on new investment does not apply to indirect holdings in actively managed investment funds. "Indirect holdings" are holdings in funds managed by outside money managers under contract with the SBI, in which the SBI participates with other investors. Requires SBI to write to managers of investments funds containing companies with scrutinized active business operations, requesting the managers to consider removing the companies from the fund or to create a similar fund without such companies.

Requires the SBI to move its money to the similar fund if one is created, consistent with prudent investing standards.

**Subd. 9. Reporting.** Requires the SBI to report the scrutinized companies list to the Legislative Commission on Pensions and Retirement. Also requires the SBI to submit an annual report on specified topics relating to this section.

**Subd. 10. Expiration.** Provides that this section ceases to be operative if Iran is removed from the State Department's list of countries that have been determined to repeatedly provide support for acts of international terrorism, or if the President determines that state legislation similar to this section interferes with the conduct of

United States foreign policy.

**Subd. 11. Other legal obligations.** Provides that the SBI is exempt from statutory or common law obligations that conflict with actions taken in compliance with this section.

**Subd. 12. Severability.** States that the provisions of this section are severable.

This section is effective July 1, 2009.