State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO:	Members of the Legislative Commission on Pensions and Retirement
FROM:	Ed Burek, Deputy Director EB
RE:	Delete-All Amendment S2428-A10 and Other Amendments to S.F. 2428 (Pappas); H.F. xxx (Thissen): Public Pension Plan Reporting Requirements and Authorized Investment Provision Modifications
DATE:	February 24, 2006

Following the Commission's February 15, 2006 meeting, individuals interested in S.F. 2428 (Pappas); H.F. xxx (Thissen) were asked to meet to develop an amendment capturing portions of the bill on which there was agreement, and to develop other amendments covering areas where there was some disagreement. Delete-all amendment S2428-A10 includes the provisions on which there was agreement. The individuals who met to discuss these issues were Carla Heyl, Jared Jordal, and Dave Kenney, all from the Office of the State Auditor; Jay Stoffel, the Executive Director of the Duluth Teachers Retirement Fund Association, Phil Kapler, the Executive Director of the St. Paul Teachers Retirement Fund Association, and Commission staff.

Delete-All Amendment S2428-A10

Delete-all amendment S2428-A10 revises the investment authority provision in statute governing all large plans other than the State Board of Investment (SBI), including the Minneapolis pension funds, the three first class city teacher fund associations, and a few hundred local volunteer fire relief associations (those with $1 million or more assets, plus smaller plans which use the services of SBI or an investment advisor to invest a significant portion of their assets).

Delete-all amendment S2428-A10 moves various investment forms that have become mainstream, common investments out of the miscellaneous "other investments" paragraph, and creates separate paragraphs for each. These are foreign stock investments in developed market countries (page 4, lines 1-4), and most real estate investment trust investments (page 4, lines 10-13). The amendment also includes a new commingled and mutual fund investment paragraph, identical in language to that recommended to pass by the Commission on February 14, 2006.

The "other investments" paragraph (page 4, lines 17-35, and page 5, lines 1-8), was intended as a listing of miscellaneous forms of investment which a pension fund could hold, but which were deemed to be sufficiently speculative that the Legislature placed limits on the amount of these investments that a pension fund could hold. The limit in existing law is a combined total of 35 percent of the portfolio. That language is found on page 4, line 34. Since several types of investment are being removed from this category and placed elsewhere, there is a need to reduce the "other investments" maximum percentage. The suggestion in the amendment, found on page 4, line 34, is to reduce the maximum from 35 percent to 20 percent. The Commission may choose to consider a percentage below 20 percent, through a verbal amendment.

Additional Amendments

Three other amendments are included, all drawn to the delete-all amendment. These amendments have an additional degree of controversy and all individuals at the meeting could not agree to support these proposals.

1. S2428-A11. This amendment revises the time-weighted rate of return reporting to the State Auditor by the large pension funds, those with more than $50 million in assets under the amendment language. Under existing law, these organizations must provide the State Auditor with the raw data needed to compute the total portfolio and asset class returns. Under the amendment, these funds would report rates of return as computed by the fund's investment performance consultant or custodial bank, but would not provide raw data to State Auditor unless the State Auditor specifically asks for it. The State Auditor staff at the meeting indicated that the State Auditor would continue to require raw data from those organizations which are of concern to the State Auditor, to allow the State Auditor to compute returns from the data to verify the returns sent by the pension fund.

After further reflecting on this proposal, Commission staff raised a few concerns. First, the proposed language may provide an acceptable level of oversight, given the current State Auditor, because the auditor is interested in this area and her representatives at the meeting indicate that the State Auditor intends to continue to ask for the raw data from many of these pension funds. The Commission may choose to consider if it would be better to leave existing law in place, at least for now, rather than leaving this oversight decision to the discretion of some future State Auditor. The Commission has never studied the differences between State Auditor computed returns and those computed by the larger pension funds to gain some understanding of why this differences are occurring. Accuracy is important for several reasons, one of which is that many of these larger pension funds base post-retirement adjustments on five-year average rates of return. If returns are inaccurate, the amount of the post-retirement adjustment is incorrect, and it is possible that a fund could provide a post-retirement increase when none should be payable. The Commission may wish to consider that the Minneapolis police and fire relief associations' 13th check is triggered by the level of the five-year average rate of return which they compute compared to increases in first grade firefighter of police officer pay, or that the first class city teacher plans pay investment performance based adjustments based on the level of their five-year average return above 8.5 percent.

A second concern is that the drafting on page 2, lines 18 to 23, of the amendment will weaken the rate of return reporting for smaller plans. Currently, when a pension fund moves from having less than \$10 million in assets to having \$10 million or more, it must shift from reporting quarterly data to reporting monthly data. The monthly data is more accurate for computing the plan's returns. Under the amendment, this shift in reporting would not occur until the pension plan reaches \$50 million in assets. This change would create less accuracy in the computed returns for any pension plan with assets greater than \$10 million and less than \$50 million.

2. S2428-A12. Amendment S2428-A12 would repeal the requirement that plan fiduciaries submit economic interest statements, and would also repeal the investment recipient disclosure, and disclosure of investment authority provisions. Issues raised by this proposed change were discussed in the staff memo for the Commission's February 15th meeting. These provisions were added to law to foster ethical action by plan administrators, pension boards, and other plan fiduciaries, and to enhance efforts to have pension plan investment programs operated consistent with law. Perhaps these provisions are not well tailored to achieve the desired results. One option is the repealer that is contained in the bill. Another is to retain these provisions and to study the situation over the next legislative interim to see if the provisions are working well, need to be revised, or should be removed.

3. S2428-A13. This amendment is an effort to explicitly address junk bond issues. Under this amendment, the vague language relating to "regional and mutual funds" (page 4, lines 25-27, of delete-all amendment S2428-A10), which various pension organizations contend allows them to invest in junk bonds if done through a mutual fund, is removed, and explicit junk bond authority is added, providing that the holdings are incidental or transitory in nature, and does not exceed three percent of total portfolio assets or ten percent of fixed income assets, whichever is less. If the Commission chooses to consider this amendment, it may wish to consider whether these percentages are the appropriate amounts. More generally, the Commission may wish to consider whether the approach taken by this amendment is the best option. Perhaps it is better to consider this amendment as a way to begin discussion on the junk bond issue, with final consideration of any action delayed until next year.

Countries in the Europe, Australia, and Far East (EAFE) Index

Australia

Austria

Belgium

Denmark

Finland

France

Germany

Greece

Hong Kong

Ireland

Italy

Japan

Netherlands

New Zealand

Norway

Portugal

Singapore

Spain

Sweden

Switzerland

United Kingdom

RATE OF RETURN CALCULATIONS
Pension Fund & State Auditor Rates
Calendar Years 1999 - 2004

Pension Fund		1999	2000	2001	2002	2003	2004
Bloomington Fire	***Auditor***	13.2	(3.9)	(7.9)	(14.4)	19.4	9.5
	Fund	11.7	(3.9)	(7.8)	(14.4)	19.9	9.5
	Auditor - Fund	1.5	0.0	(0.1)	0.0	(0.5)	0.0
Duluth Teachers'		29.4	(1.6)	(4.3)	(12.6)	28.2	10.6
		30.1	(1.5)	(4.6)	(12.6)	28.1	10.6
		(0.7)	(0.1)	0.3	0.0	0.1	0.0
Minneapolis Employees		15.5	(1.3)	(6.1)	(11.4)	23.8	12.8
		16.0	(1.5)	(6.2)	(11.4)	23.7	12.8
		(0.5)	0.2	0.1	0.0	0.1	0.0
Minneapolis Fire		17.8	(2.7)	(3.3)	(10.0)	20.0	10.1
		18.3	(2.7)	(3.3)	(10.0)	20.0	10.2
		(0.5)	0.0	0.0	0.0	0.0	(0.1)
Minneapolis Police		11.1	(2.0)	(4.1)	(10.1)	22.3	10.1
		11.6	(1.6)	(4.1)	(10.1)	22.7	9.7
		(0.5)	(0.4)	0.0	0.0	(0.4)	0.4
Minneapolis Teachers'		21.5	(6.0)	(7.7)	(16.1)	22.8	10.2
		21.5	(6.0)	(7.7)	(16.1)	22.8	10.2
		0.0	0.0	0.0	0.0	0.0	0.0
St. Paul Teachers'		13.6	(0.2)	(1.7)	(10.1)	26.7	14.1
		13.9	0.1	(1.4)	(9.6)	26.9	14.1
		(0.3)	(0.3)	(0.3)	(0.5)	(0.2)	0.0
State Board - Basic Fund		17.1	(1.8)	(6.8)	(11.6)	22.7	13.0
		17.1	(1.8)	(7.0)	(11.6)	22.7	13.0
		0.0	0.0	0.2	0.0	0.0	0.0
State Board - Post Fund		15.8	(3.8)	(5.1)	(11.6)	23.5	11.8
		15.8	(3.8)	(5.1)	(11.6)	23.5	11.8
		0.0	0.0	0.0	0.0	0.0	0.0
Average Variance by Year		**(0.11)**	**(0.07)**	**0.02**	**(0.06)**	**(0.10)**	**0.03**
Overall Average Difference (1999 - 2004)							**-0.05**

.... moves to amend S.F. No. 2428; H.F. No. ...., as follows:

Delete everything after the enacting clause and insert:

"Section 1. Minnesota Statutes 2005 Supplement, section 356A.06, subdivision 7, is amended to read:

Subd. 7. **Expanded list of authorized investment securities.** (a)**Authority.**Except to the extent otherwise authorized by law ~~or bylaws~~, a covered pension plan not described by subdivision 6, paragraph (a), may invest its assets only in accordance with this subdivision.

(b) **Securities generally.**The covered pension plan has the authority to purchase, sell, lend, or exchange the securities specified in paragraphs (c) to (h), including puts and call options and future contracts traded on a contract market regulated by a governmental agency or by a financial institution regulated by a governmental agency. These securities may be owned as units in commingled trusts that own the securities described in paragraphs (c) to (h) including real estate investment trusts and insurance company commingled accounts, including separate accounts.

(c) **Government obligations.**The covered pension plan may invest funds in governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the issuer or the issue is rated among the top four quality rating categories by a nationally recognized rating agency. The obligations in which funds may be invested under this paragraph include guaranteed or insured issues of (1) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (2) Canada and its provinces, provided the principal and interest is payable in United States dollars; (3) the states and their municipalities, political subdivisions, agencies, or instrumentalities; (4) the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(d) **Corporate obligations.**The covered pension plan may invest funds in bonds, notes, debentures, transportation equipment obligations, or any other longer term evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof if they conform to the following provisions:

(1) the principal and interest of obligations of corporations incorporated or organized under the laws of the Dominion of Canada or any province thereof must be payable in United States dollars; and

(2) obligations must be rated among the top four quality categories by a nationally recognized rating agency.

(e) **Other obligations.**(1) The covered pension plan may invest funds in bankers acceptances, certificates of deposit, deposit notes, commercial paper, mortgage participation certificates and pools, asset backed securities, repurchase agreements and reverse repurchase agreements, guaranteed investment contracts, savings accounts, and guaranty fund certificates, surplus notes, or debentures of domestic mutual insurance companies if they conform to the following provisions:

(i) bankers acceptances and deposit notes of United States banks are limited to those issued by banks rated in the highest four quality categories by a nationally recognized rating agency;

(ii) certificates of deposit are limited to those issued by (A) United States banks and savings institutions that are rated in the highest four quality categories by a nationally recognized rating agency or whose certificates of deposit are fully insured by federal agencies; or (B) credit unions in amounts up to the limit of insurance coverage provided by the National Credit Union Administration;

(iii) commercial paper is limited to those issued by United States corporations or their Canadian subsidiaries and rated in the highest two quality categories by a nationally recognized rating agency;

(iv) mortgage participation or pass through certificates evidencing interests in pools of first mortgages or trust deeds on improved real estate located in the United States where the loan to value ratio for each loan as calculated in accordance with section 61A.28, subdivision 3, does not exceed 80 percent for fully amortizable residential properties and in all other respects meets the requirements of section 61A.28, subdivision 3;

(v) collateral for repurchase agreements and reverse repurchase agreements is limited to letters of credit and securities authorized in this section;

(vi) guaranteed investment contracts are limited to those issued by insurance companies or banks rated in the top four quality categories by a nationally recognized rating agency or to alternative guaranteed investment contracts where the underlying assets comply with the requirements of this subdivision;

(vii) savings accounts are limited to those fully insured by federal agencies; and

(viii) asset backed securities must be rated in the top four quality categories by a nationally recognized rating agency.

(2) Sections 16A.58, 16C.03, subdivision 4, and 16C.05 do not apply to certificates of deposit and collateralization agreements executed by the covered pension plan under clause (1), item (ii).

(3) In addition to investments authorized by clause (1), item (iv), the covered pension plan may purchase from the Minnesota Housing Finance Agency all or any part of a pool of residential mortgages, not in default, that has previously been financed by the issuance of bonds or notes of the agency. The covered pension plan may also enter into a commitment with the agency, at the time of any issue of bonds or notes, to purchase at a specified future date, not exceeding 12 years from the date of the issue, the amount of mortgage loans then outstanding and not in default that have been made or purchased from the proceeds of the bonds or notes. The covered pension plan may charge reasonable fees for any such commitment and may agree to purchase the mortgage loans at a price sufficient to produce a yield to the covered pension plan comparable, in its judgment, to the yield available on similar mortgage loans at the date of the bonds or notes. The covered pension plan may also enter into agreements with the agency for the investment of any portion of the funds of the agency. The agreement must cover the period of the investment, withdrawal privileges, and any guaranteed rate of return.

(f) **Corporate stocks.**The covered pension plan may invest funds in stocks or convertible issues of any corporation organized under the laws of the United States or the states thereof, any corporation organized under the laws of the Dominion of Canada or its provinces, or any corporation listed on an exchange regulated by an agency of the United States or of the Canadian national government, if they conform to the following provisions:

(1) the aggregate value of ~~corporate stock~~ investments under this paragraph, plus paragraphs (g) and (k), plus equity investments under paragraphs (h), (i), and (j), as adjusted for realized ~~profits~~ gains and losses, must not exceed 85 percent of the market or book value, whichever is less, of a fund~~, less the aggregate value of investments according to paragraph (h)~~; and

(2) investments must not exceed five percent of the total outstanding shares of any one corporation.

(g) **Developed market foreign stocks investments.** In addition to investments authorized under paragraph (f), the covered pension fund may invest in foreign stock sold on an exchange in any developed market country included in the Europe, Australia, and Far East Index.

(h) **Commingled or mutual investments.** The covered pension plan may invest in index funds or mutual funds, including index mutual funds, through bank-sponsored collective funds and shares of open-end investment companies registered under the Federal Investment Company Act of 1940, if the investments of the index or mutual fund comply with paragraphs (c) to (j).

(i) **Real estate investment trust; related investments.** The covered pension plan may invest in real estate investment trusts secured by mortgages or deeds of trust and sold on an exchange, and insurance company commingled accounts, including separate accounts, of a debt or equity nature.

(j) **Exchange traded funds.**The covered pension plan may invest funds in exchange traded funds, subject to the maximums, the requirements, and the limitations set forth in ~~paragraph (d), (e), (f), or (h), whichever applies~~ paragraphs (c) to (i), as applicable.

~~(h)~~ (k) **Other investments.**(1) In addition to the investments authorized in paragraphs (b) to ~~(g)~~ (j), and subject to the provisions in clause (2), the covered pension plan may invest funds in:

(i) venture capital investment businesses through participation in limited partnerships and corporations;

(ii) real estate ownership interests or loans secured by mortgages or deeds of trust through investment in limited partnerships~~,~~ or bank sponsored collective funds~~, trusts, and insurance company commingled accounts, including separate accounts~~;

(iii) regional and mutual funds through bank sponsored collective funds and open-end investment companies registered under the Federal Investment Company Act of 1940 which do not qualify under paragraph (h);

(iv) resource investments through limited partnerships, private placements, and corporations; and

(v) international debt securities and emerging market equity securities.

(2) The investments authorized in clause (1) must conform to the following provisions:

(i) the aggregate value of all investments made according to clause (1) may not exceed ~~35~~ 20 percent of the market value of the fund for which the covered pension plan is investing;

(ii) there must be at least four unrelated owners of the investment other than the covered pension plan for investments made under clause (1), item (i), (ii), (iii), or (iv);

(iii) covered pension plan participation in an investment vehicle is limited to 20 percent thereof for investments made under clause (1), item (i), (ii), (iii), or (iv); and

(iv) covered pension plan participation in a limited partnership does not include a general partnership interest or other interest involving general liability. The covered pension plan may not engage in any activity as a limited partner which creates general liability.

Sec. 2. **TRANSITION PROVISION.**

A covered pension plan with investments that on the day prior to the effective date of this section do not comply with section 1 shall divest of any assets not in compliance before January 1, 2008.

Sec. 3. **EFFECTIVE DATE.**

Sections 1 and 2 are effective on the day following final enactment."

Amend the title accordingly

.... moves to amend delete-everything amendment S2428-A10 as follows:

Page 1, after line 2, insert:

"Section 1. Minnesota Statutes 2004, section 356.219, subdivision 3, is amended to read:

Subd. 3. **Content of reports.** (a) The report required by subdivision 1 must include a written statement of the investment policy ~~in effect on June 30, 1997, if that statement has not been previously submitted~~. Following that ~~date~~ initial report, subsequent reports must include investment policy changes and the effective date of each policy change rather than a complete statement of investment policy, unless the state auditor requests submission of a complete current statement. The report must also include the information required by the following paragraphs, as applicable.

(b) If a public pension plan has a total market value of ~~$10,000,000~~ $50,000,000 or more as of the beginning of the calendar year, and if the public pension plan's annual audit is performed by the state auditor or by the legislative auditor, the report required by subdivision 1 must include the market value of the total portfolio and the market value of each ~~investment account, investment portfolio, or~~ asset class included in the pension fund as of the beginning of the calendar year and as of the end of the calendar year. At the discretion of the state auditor, the public pension plan may be required to submit the market value of the total portfolio and the market value of each investment account, investment portfolio, or asset class included in the pension fund for each month, and the amount and date of each injection and withdrawal to the total portfolio and to each investment account, investment portfolio, or asset class. If ~~a public pension plan once files a report under this paragraph~~ the market value of a public pension plan's fund drops below $50,000,000 in a subsequent year, it must continue reporting under this paragraph for any subsequent year in which the public pension plan is not fully invested as specified in subdivision 1, paragraph (b), ~~even if asset values drop below $10,000,000 in market~~

~~value in that subsequent year~~ except that if the public pension plan's annual audit is not performed by the state auditor or legislative auditor, paragraph (c) applies.

(c) If paragraph (b) would apply if the annual audit were provided by the state auditor or legislative auditor, the report required by subdivision 1 must include the market value of the total portfolio and the market value of each asset class included in the pension fund as of the beginning of the calendar year and for each month, and the amount and date of each injection and withdrawal to the total portfolio and to each investment account, investment portfolio, or asset class.

(d) For public pension plans to which paragraph (b) or (c) applies, the report required by subdivision 1 must also include a calculation of the total time-weighted rate of return available from index-matching investments assuming the asset class performance targets and target asset mix indicated in the written statement of investment policy. The provided information must include a description of indices used in the analyses and an explanation of why those indices are appropriate. This paragraph does not apply to any fully invested plan, as defined by subdivision 1, paragraph (b). Reporting by the State Board of Investment under this paragraph is limited to information on the Minnesota public pension plans required to be invested by the State Board of Investment under section 11A.23.

~~(d)~~ (e) If a public pension plan has a total market value of less than ~~$10,000,000~~ $50,000,000 as of the beginning of the calendar year and was never required to file under paragraph (b) or (c), the report required by subdivision 1 must include the amount and date of each total portfolio injection and withdrawal. In addition, the report must include the market value of the total portfolio as of the beginning of the calendar year and for each quarter.

~~(e)~~ (f) Any public pension plan reporting under paragraph (b) or ~~(d) may~~ (c) must include computed time-weighted rates of return with the report, in addition to all other required information, as applicable. ~~If these returns are supplied, the individual who computed~~ The chief administrative officer of the public pension plan submitting the returns must certify on a form prescribed by the state auditor that the returns have been computed by the pension plan's investment performance consultant or custodial bank. The chief administrative officer of the public pension plan submitting the returns also must certify that the returns are net of all costs and fees, including investment management fees, and that the procedures used to compute the returns are consistent with Bank Administration Institute studies of investment performance measurement and ~~Association for Investment Management and Research~~ presentation standards set by the Certified Financial Analyst Institute. If the certifications required under this paragraph are not provided, the reporting requirements of paragraph (c) apply.

~~(f)~~ (g) For public pension plans reporting under paragraph ~~(d)~~ (e), the public pension plan must retain supporting information specifying the date and amount of each injection and withdrawal to each investment account and investment portfolio. The public pension plan must also retain the market value of each investment account and investment portfolio at the beginning of the calendar year and for each quarter. Information that is required to be collected and retained for any given year or years under this paragraph must be submitted to the Office of the State Auditor if the Office of the State Auditor requests in writing that the information be submitted by a public pension plan or plans, or be submitted by the State Board of Investment for any plan or plans for which the State Board of Investment is the investment authority under this section. If the state auditor requests information under this subdivision, and the public plan fails to comply, the pension plan is subject to penalties under subdivision 5, unless penalties are waived by the state auditor under that subdivision.

Sec. 2. Minnesota Statutes 2004, section 356.219, subdivision 6, is amended to read:

Subd. 6. **Investment disclosure report.** (a) The state auditor shall prepare an annual report to the legislature on the investment performance of the various public pension plans subject to this section. The content of the report is specified in paragraphs (b) to ~~(e)~~ (f).

(b) For each public pension plan reporting under subdivision 3, paragraph (b), the state auditor shall ~~compute and~~ report total portfolio and asset class time-weighted rates of return, net of all investment-related costs and fees. If the state auditor has required a plan to submit the market value of the total portfolio and the market value of each investment account, investment portfolio, or asset class included in the pension fund for each month, and the amount and date of each injection and withdrawal to the total portfolio and to each investment account, investment portfolio, or asset class as prescribed under subdivision 3, paragraph (b), the state auditor shall also compute and report total portfolio and asset class time-weighted rates of return, net of all costs and fees.

(c) For each public pension plan reporting under subdivision 3, paragraph (c), the state auditor shall compute and report total portfolio and asset class time-weighted rates of return, net of all costs and fees.

(d) For each public pension plan reporting under subdivision 3, paragraph ~~(d)~~ (e), the state auditor shall compute and report total portfolio time-weighted rates of return, net of all costs and fees. If the state auditor has requested data for a plan under subdivision 3, paragraph ~~(f)~~ (g), the state auditor may also compute and report asset class time-weighted rates of return, net of all costs and fees.

~~(d)~~ (e) The report by the state auditor must include the information submitted by the pension plans under subdivision 3, paragraph ~~(c)~~ (d), or a synopsis of that information.

~~(e)~~ (f) The report by the state auditor may also include a presentation of multiyear performance, information collected under subdivision 4, and any other information or analysis deemed appropriate by the state auditor."

Page 5, line 14, before "Sections" insert "(a)" and delete "and 2" and insert "to 4"

Page 5, after line 14, insert:

"(b) Sections 1 and 2 apply to reports covering calendar year 2005 and later. A public pension plan that has filed a written statement of investment policy with the state auditor prior to the effective date of section 1 is considered to have filed an initial report for purposes of that section."

Renumber the sections in sequence

.... moves to amend S2428-A10, the delete everything amendment to S.F. No. 2428, as follows:

Page 5, after line 12, insert:

"Sec. 3. **REPEALER.**

Minnesota Statutes 2004, section 356A.06, subdivisions 4, 5, and 8b, are repealed."

Page 5, line 14, delete "and 2" and insert "to 3"

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend S2428-A10, the delete everything amendment to S.F. No. 2428, as follows:

Page 4, line 25, strike everything after "(iii)"

Page 4, strike line 26

Page 4, line 27, strike the existing language and delete the new language

Page 4, line 28, strike "(iv)"

Page 4, line 29, strike "and"

Page 4, line 30, strike "(v)" and insert "(iv)" and after "securities" insert "; and

(v) Domestic government and corporate debt obligations not rated in the top four quality categories by a nationally recognized rating agency, and comparable unrated securities"

Page 5, after line 8, insert:

"(3) In addition to applicable requirements under clause (2), investments specified under clause (1), item (v), may be purchased and may be held provided that:

(i) the holding of these securities is of an incidental or transitory nature;

(ii) the percentage of these assets does not exceed three percent of the total assets of the pension plan or ten percent of the pension plan's non-equity assets, whichever is less;

(iii) the pension plan's participation is limited to 50 percent of a single offering subject to clause (1), item (v); and

(iv) the pension plan's participation is limited to 25 percent of an issuer's obligations subject to clause (1), item (v)."

Amend the title accordingly