

BILL ANALYSIS

Senate Research Center
78R6924 SGA-D

S.B. 977
By: Staples
State Affairs
3/28/2003
As Filed

DIGEST AND PURPOSE

Currently, many public retirement systems utilize brokerage firms as custodians of their assets. However, Section 802.205, Government Code, does not explicitly allow brokerage firms to serve as custodians. As proposed, S.B. 977 allows public retirement systems to contract with brokerage firms for management and custodial services. This bill also provides safeguards to ensure the brokerage firms meet certain criteria.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 802.205, Government Code, by amending Subsection (a) and adding Subsections (d)-(g), as follows:

- (a) Includes a brokerage firm as an entity which may serve as a designated custodian for assets of certain public retirement systems.
- (d) Requires a brokerage firm to meet certain requirements, if a governing body enters into a contract under Subsection (a) with a brokerage firm.
- (e) Prohibits a brokerage firm contracted with for custodial services under this section from having discretionary authority over the retirement system's assets in the firm's custody.
- (f) Requires a brokerage firm that provides custodial services under Subsection (a) to provide excess securities investor protection corporation or equivalent insurance against errors, omissions, or fraud in an amount equal to the amount of the assets the firm holds in custody.
- (g) Provides that a brokerage firm that provides consulting advice, custody of assets, or other services to a public retirement system under this chapter is considered a fiduciary in accordance with Section 802.203.

SECTION 2. (a) Makes application of this Act prospective.

- (b) Provides that this Act validates a contract with a brokerage firm for the custody of assets of a public retirement system that was entered into before the effective date of this Act as being in compliance with the law of this state if the requirements of Section 802.205, Government Code, as amended by this Act, are satisfied by the contract.

SECTION 3. Effective date: upon passage or September 1, 2003.