

AN ACT concerning finance.

WHEREAS, A resolution of the United Nations Security Council imposes sanctions on Iran for its failure to suspend its uranium-enrichment activities; and

WHEREAS, The United Nations Security Council voted unanimously for an additional embargo on Iranian arms exports, which is a freeze on assets abroad of an expanded list of individuals and companies involved in Iran's nuclear and ballistic missile programs and calls for nations and institutions to bar new grants or loans to Iran except for humanitarian and developmental purposes; and

WHEREAS, Iran's financial ability to pay its debts to foreign entities involved in the petroleum-energy sector amounting to more than \$20 million is put at risk by the Iran and Libya Sanctions Act embargo and sanctions; and

WHEREAS, Foreign entities have invested in Iran's petroleum-energy sector despite United States and United Nations sanctions against Iran; and

WHEREAS, All United States and foreign entities that have invested more than \$20 million in Iran's energy sector since August 5, 1996, are subject to sanctions under United States law pursuant to the Iran and Libya Sanctions Act of 1996; and

WHEREAS, The United States renewed the Iran and Libya Sanctions Act of 1996 in 2001 and 2006; and

WHEREAS, While divestiture should be considered with the intent to improve investment performance and, by the rules of prudence, fiduciaries must take into account all relevant substantive factors in arriving at an investment decision; and

WHEREAS, Divestiture from markets that are vulnerable to embargo, loan restrictions, and sanctions from the United States and the international community, including the United Nations Security Council, is in accordance with the rules of prudence; and

WHEREAS, The State of Illinois is deeply concerned about investments in publicly traded companies that have business activities in and ties to Iran's petroleum-energy sector as a financial risk to the shareholders; and

WHEREAS, By investing in publicly traded companies having ties to Iran's petroleum-energy sector, retirement systems are putting the funds they oversee at substantial financial risk; and

WHEREAS, To protect Illinois' assets, it is in the best

interest of the State to enact a statutory prohibition regarding investments in or with Iran's petroleum-energy sector; therefore

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 5. The Illinois Procurement Code is amended by adding Section 50-36 as follows:

(30 ILCS 500/50-36 new)

Sec. 50-36. Disclosure of business in Iran.

(a) As used in this Section:

"Business operations" means engaging in commerce in any form in Iran, including, but not limited to, acquiring, developing, maintaining, owning, selling, possessing, leasing, or operating equipment, facilities, personnel, products, services, personal property, real property, or any other apparatus of business or commerce.

"Company" means any sole proprietorship, organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability company, or other entity or business association, including all wholly owned subsidiaries, majority-owned subsidiaries, parent companies, or affiliates of those entities or business associations, that exists for the purpose of making profit.

"Mineral-extraction activities" include exploring, extracting, processing, transporting, or wholesale selling or trading of elemental minerals or associated metal alloys or oxides (ore), including gold, copper, chromium, chromite, diamonds, iron, iron ore, silver, tungsten, uranium, and zinc.

"Oil-related activities" include, but are not limited to, owning rights to oil blocks; exporting, extracting, producing, refining, processing, exploring for, transporting, selling, or trading of oil; and constructing, maintaining, or operating a pipeline, refinery, or other oil-field infrastructure. The mere retail sale of gasoline and related consumer products is not considered an oil-related activity.

"Petroleum resources" means petroleum, petroleum byproducts, or natural gas.

"Substantial action" means adopting, publicizing, and implementing a formal plan to cease scrutinized business operations within one year and to refrain from any such new business operations.

(b) Each bid, offer, or proposal submitted for a State contract, other than a small purchase defined in Section 20-20, shall include a disclosure of whether or not the bidder, offeror, or proposing entity, or any of its corporate parents or subsidiaries, within the 24 months before submission of the bid, offer, or proposal had business operations that involved contracts with or provision of supplies or services to the Government of Iran, companies in which the Government of Iran

has any direct or indirect equity share, consortiums or projects commissioned by the Government of Iran, or companies involved in consortiums or projects commissioned by the Government of Iran and:

(1) more than 10% of the company's revenues produced in or assets located in Iran involve oil-related activities or mineral-extraction activities; less than 75% of the company's revenues produced in or assets located in Iran involve contracts with or provision of oil-related or mineral-extraction products or services to the Government of Iran or a project or consortium created exclusively by that government; and the company has failed to take substantial action; or

(2) the company has, on or after August 5, 1996, made an investment of \$20 million or more, or any combination of investments of at least \$10 million each that in the aggregate equals or exceeds \$20 million in any 12-month period, that directly or significantly contributes to the enhancement of Iran's ability to develop petroleum resources of Iran.

(c) A bid, offer, or proposal that does not include the disclosure required by subsection (b) shall not be considered responsive. A chief procurement officer may consider the disclosure when evaluating the bid, offer, or proposal or awarding the contract.

(d) Each chief procurement officer shall provide the State

Comptroller with the name of each entity disclosed under subsection (b) as doing business or having done business in Iran. The State Comptroller shall post that information on his or her official website.

Section 10. The Illinois Pension Code is amended by adding Section 1-110.10 as follows:

(40 ILCS 5/1-110.10 new)

Sec. 1-110.10. Transactions prohibited by retirement systems; Iran.

(a) As used in this Section:

"Active business operations" means all business operations that are not inactive business operations.

"Business operations" means engaging in commerce in any form in Iran, including, but not limited to, acquiring, developing, maintaining, owning, selling, possessing, leasing, or operating equipment, facilities, personnel, products, services, personal property, real property, or any other apparatus of business or commerce.

"Company" means any sole proprietorship, organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability company, or other entity or business association, including all wholly owned subsidiaries, majority-owned subsidiaries, parent companies, or affiliates of those entities or business

associations, that exists for the purpose of making profit.

"Direct holdings" in a company means all securities of that company that are held directly by the retirement system or in an account or fund in which the retirement system owns all shares or interests.

"Inactive business operations" means the mere continued holding or renewal of rights to property previously operated for the purpose of generating revenues but not presently deployed for that purpose.

"Indirect holdings" in a company means all securities of that company which are held in an account or fund, such as a mutual fund, managed by one or more persons not employed by the retirement system, in which the retirement system owns shares or interests together with other investors not subject to the provisions of this Section.

"Mineral-extraction activities" include exploring, extracting, processing, transporting, or wholesale selling or trading of elemental minerals or associated metal alloys or oxides (ore), including gold, copper, chromium, chromite, diamonds, iron, iron ore, silver, tungsten, uranium, and zinc.

"Oil-related activities" include, but are not limited to, owning rights to oil blocks; exporting, extracting, producing, refining, processing, exploring for, transporting, selling, or trading of oil; and constructing, maintaining, or operating a pipeline, refinery, or other oil-field infrastructure. The mere retail sale of gasoline and related consumer products is

not considered an oil-related activity.

"Petroleum resources" means petroleum, petroleum byproducts, or natural gas.

"Private market fund" means any private equity fund, private equity fund of funds, venture capital fund, hedge fund, hedge fund of funds, real estate fund, or other investment vehicle that is not publicly traded.

"Retirement system" means the State Employees' Retirement System of Illinois, the Judges Retirement System of Illinois, the General Assembly Retirement System, the State Universities Retirement System, and the Teachers' Retirement System of the State of Illinois.

"Scrutinized business operations" means business operations that have caused a company to become a scrutinized company.

"Scrutinized company" means the company has business operations that involve contracts with or provision of supplies or services to the Government of Iran, companies in which the Government of Iran has any direct or indirect equity share, consortiums or projects commissioned by the Government of Iran, or companies involved in consortiums or projects commissioned by the Government of Iran and:

(1) more than 10% of the company's revenues produced in or assets located in Iran involve oil-related activities or mineral-extraction activities; less than 75% of the company's revenues produced in or assets located in Iran

involve contracts with or provision of oil-related or mineral-extraction products or services to the Government of Iran or a project or consortium created exclusively by that government; and the company has failed to take substantial action; or

(2) the company has, on or after August 5, 1996, made an investment of \$20 million or more, or any combination of investments of at least \$10 million each that in the aggregate equals or exceeds \$20 million in any 12-month period, that directly or significantly contributes to the enhancement of Iran's ability to develop petroleum resources of Iran.

"Substantial action" means adopting, publicizing, and implementing a formal plan to cease scrutinized business operations within one year and to refrain from any such new business operations.

(b) Within 90 days after the effective date of this Section, a retirement system shall make its best efforts to identify all scrutinized companies in which the retirement system has direct or indirect holdings.

These efforts shall include the following, as appropriate in the retirement system's judgment:

(1) reviewing and relying on publicly available information regarding companies having business operations in Iran, including information provided by nonprofit organizations, research firms, international

organizations, and government entities;

(2) contacting asset managers contracted by the retirement system that invest in companies having business operations in Iran; and

(3) Contacting other institutional investors that have divested from or engaged with companies that have business operations in Iran.

The retirement system may retain an independent research firm to identify scrutinized companies in which the retirement system has direct or indirect holdings. By the first meeting of the retirement system following the 90-day period described in this subsection (b), the retirement system shall assemble all scrutinized companies identified into a scrutinized companies list.

The retirement system shall update the scrutinized companies list annually based on evolving information from, among other sources, those listed in this subsection (b).

(c) The retirement system shall adhere to the following procedures for companies on the scrutinized companies list:

(1) The retirement system shall determine the companies on the scrutinized companies list in which the retirement system owns direct or indirect holdings.

(2) For each company identified in item (1) of this subsection (c) that has only inactive business operations, the retirement system shall send a written notice informing the company of this Section and encouraging it to continue

to refrain from initiating active business operations in Iran until it is able to avoid scrutinized business operations. The retirement system shall continue such correspondence semiannually.

(3) For each company newly identified in item (1) of this subsection (c) that has active business operations, the retirement system shall send a written notice informing the company of its scrutinized company status and that it may become subject to divestment by the retirement system. The notice must inform the company of the opportunity to clarify its Iran-related activities and encourage the company, within 90 days, to cease its scrutinized business operations or convert such operations to inactive business operations in order to avoid qualifying for divestment by the retirement system.

(4) If, within 90 days after the retirement system's first engagement with a company pursuant to this subsection (c), that company ceases scrutinized business operations, the company shall be removed from the scrutinized companies list and the provisions of this Section shall cease to apply to it unless it resumes scrutinized business operations. If, within 90 days after the retirement system's first engagement, the company converts its scrutinized active business operations to inactive business operations, the company is subject to all provisions relating thereto.

(d) If, after 90 days following the retirement system's first engagement with a company pursuant to subsection (c), the company continues to have scrutinized active business operations, and only while such company continues to have scrutinized active business operations, the retirement system shall sell, redeem, divest, or withdraw all publicly traded securities of the company, except as provided in paragraph (f), from the retirement system's assets under management within 12 months after the company's most recent appearance on the scrutinized companies list.

If a company that ceased scrutinized active business operations following engagement pursuant to subsection (c) resumes such operations, this subsection (d) immediately applies, and the retirement system shall send a written notice to the company. The company shall also be immediately reintroduced onto the scrutinized companies list.

(e) The retirement system may not acquire securities of companies on the scrutinized companies list that have active business operations, except as provided in subsection (f).

(f) A company that the United States Government affirmatively declares to be excluded from its present or any future federal sanctions regime relating to Iran is not subject to divestment or the investment prohibition pursuant to subsections (d) and (e).

(g) Notwithstanding the provisions of this Section, paragraphs (d) and (e) do not apply to indirect holdings in a

private market fund. However, the retirement system shall submit letters to the managers of those investment funds containing companies that have scrutinized active business operations requesting that they consider removing the companies from the fund or create a similar actively managed fund having indirect holdings devoid of the companies. If the manager creates a similar fund, the retirement system shall replace all applicable investments with investments in the similar fund in an expedited timeframe consistent with prudent investing standards.

(h) The retirement system shall file a report with the Public Pension Division of the Department of Financial and Professional Regulation that includes the scrutinized companies list within 30 days after the list is created. This report shall be made available to the public.

The retirement system shall file an annual report with the Public Pension Division, which shall be made available to the public, that includes all of the following:

(1) A summary of correspondence with companies engaged by the retirement system under items (2) and (3) of subsection (c).

(2) All investments sold, redeemed, divested, or withdrawn in compliance with subsection (d).

(3) All prohibited investments under subsection (e).

(4) A summary of correspondence with private market funds notified under subsection (g).

(i) This Section expires upon the occurrence of any of the following:

(1) The United States revokes all sanctions imposed against the Government of Iran.

(2) The Congress or President of the United States declares that the Government of Iran has ceased to acquire weapons of mass destruction and to support international terrorism.

(3) The Congress or President of the United States, through legislation or executive order, declares that mandatory divestment of the type provided for in this Section interferes with the conduct of United States foreign policy.

(j) With respect to actions taken in compliance with this Act, including all good-faith determinations regarding companies as required by this Act, the retirement system is exempt from any conflicting statutory or common law obligations, including any fiduciary duties under this Article and any obligations with respect to choice of asset managers, investment funds, or investments for the retirement system's securities portfolios.

(k) Notwithstanding any other provision of this Section to the contrary, the retirement system may cease divesting from scrutinized companies pursuant to subsection (d) or reinvest in scrutinized companies from which it divested pursuant to subsection (d) if clear and convincing evidence shows that the

value of investments in scrutinized companies with active scrutinized business operations becomes equal to or less than 0.5% of the market value of all assets under management by the retirement system. Cessation of divestment, reinvestment, or any subsequent ongoing investment authorized by this Section is limited to the minimum steps necessary to avoid the contingency set forth in this subsection (k). For any cessation of divestment, reinvestment, or subsequent ongoing investment authorized by this Section, the retirement system shall provide a written report to the Public Pension Division in advance of initial reinvestment, updated semiannually thereafter as applicable, setting forth the reasons and justification, supported by clear and convincing evidence, for its decisions to cease divestment, reinvest, or remain invested in companies having scrutinized active business operations. This Section does not apply to reinvestment in companies on the grounds that they have ceased to have scrutinized active business operations.

(1) If any provision of this Section or its application to any person or circumstance is held invalid, the invalidity does not affect other provisions or applications of the Act which can be given effect without the invalid provision or application, and to this end the provisions of this Section are severable.

Section 99. Effective date. This Act takes effect on January 1, 2008.