Virginia Retirement System
2009 Fiscal Impact Statement

1. **Bill Number:** HB2457

   House of Origin _X_ Introduced ___ Substitute ___ Engrossed

   Second House ___ In Committee ___ Substitute ___ Enrolled

2. **Patron:** O'Bannon

3. **Committee:** Appropriations

4. **Title:** **Virginia Retirement System; investments related to Iran.**

5. **Summary:** Virginia Retirement System; investments related to Iran. Requires the Virginia Retirement System, under certain circumstances, to divest itself of investments in companies investing substantial amounts in Iran's petroleum sector, which significantly enhances Iran's ability to develop its petroleum resources.

6. **Fiscal Impact Estimates:** The bill would preclude VRS from investing in approximately 42 companies domiciled in Canada, Europe, and Asia. As of December 31, 2008, VRS held $525.4 million in stocks issued by 30 companies deemed to be "scrutinized companies," as defined by RiskMetrics, and subject to divestment. This group of stocks includes no companies domiciled in the United States. Stocks in these 30 companies, representing about 3 percent of the VRS public equity portfolio, would be subject to divestment. Transaction costs for selling the stocks of scrutinized companies and buying replacements are expected to range from $2.3 million to $17.8 million. VRS is unable to estimate the possible loss in future earnings that could result from a substantially reduced set of investment opportunities.

   Note: VRS used RiskMetrics' Iran Focus List to identify scrutinized companies.

7. **Budget Amendment Necessary:** No

8. **Fiscal Implications:** See Fiscal Impact Estimates and Other Comments.

9. **Specific Agency or Political Subdivisions Affected:** VRS

10. **Technical Amendment Necessary:** No

11. **Other Comments:** The VRS Board of Trustees has a number of concerns about divestment legislation:

    Fiduciary/Constitutional Concern – Article 11 of the Virginia Constitution sets out an important fiduciary standard that requires VRS trust funds to be "invested and administered solely in the interests of the members and beneficiaries thereof". Divestment is contrary to this principal as it requires the Board to consider interests other than the best interest of members. The Board endorses the current standard as a means to insulate the investment program from political exigencies of the day and ill-considered investment schemes. While this bill expresses concern about the risks to the fund associated with investing in publicly traded companies having investments in Iran's petroleum sector, VRS staff have found that investment in Iran is generally only a small portion of these scrutinized companies' books of business and would likely not place VRS' underlying investments in these companies at risk.

Adverse Impact on the Investment Program – The bill would require VRS to sell profitable investments and severely restrict future investment opportunities. Large companies from most of the developed economies in the world would be placed off limits to the VRS investment program. According to RiskMetrics, as of December 31, 2008, VRS held $525.4 million in stocks issued by 30 companies deemed to be "scrutinized companies" subject to divestment. .

Cost of Administration – VRS estimates it will incur transaction costs ranging between $2.3 million to $17.8 million. This represents the estimated round-trip costs of selling $525.4 million in stocks and purchasing another $525.4 million in replacements. Both brokerage fees and market impact are included in the estimate. Actual costs will depend on market conditions at the time each transaction is executed.

Date: 1/23/2009 pas
Document: HB2457.DOC