

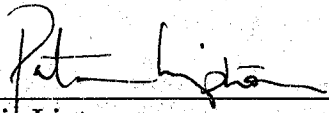
STATE OF WISCONSIN)
)
INVESTMENT BOARD) SS

I, Patricia Lipton, Executive Director of the State of Wisconsin Investment Board and custodian of the official records, certify that the annexed rules, relating to restrictions on Investment Board employees, were duly approved and adopted by the Investment Board on February 4, 1998.

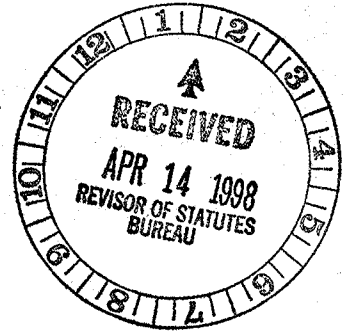
I further certify that this copy has been compared by me with the original on file at this Board and that it is a true copy of the original, and of the whole of the original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the official seal of the agency at 121 E. Wilson Street in the city of Madison, this 13th day of April, 1998.

SEAL



Patricia Lipton
Executive Director



ORDER OF THE STATE INVESTMENT BOARD

The State of Wisconsin Investment Board hereby issues an order to repeal IB 1.06, to renumber IB 1.02 (6), (12), (13), and (14); to renumber and amend IB 1.02 (2), (3), (4), (5), (7), (8), (9), (10), (11), (12), and (15); to amend IB 1.03, 1.04 (3), 1.05 (title), 1.07 (1) (intro), (2) (intro), and (b), (3), and (4), 1.09 (1), and 2.02 (5); and to create IB 1.02 (2) and (4), 1.03 (3), and 1.05 (3), relating to restrictions on Investment Board employees.

Statutory authority: s. 25.156 (1) and (4), Stats.

Statutes interpreted: s. 25.156 (4) and s. 25.16 (2), Stats.

Analysis

The proposed amendments to IB 1 are promulgated under authority of s. 25.156 (1) and (4), Stats. They clarify and update existing rules in IB 1. Those rules implement the directive in s. 25.156 (4), Stats., that the Investment Board establish rules restricting employees' potential personal financial and investment conflicts with the Board's interests and governing the receipt of gifts and favors from firms with which the Board is doing business.

The proposed rule changes more specifically describe existing Investment Board procedures which are intended to avoid conflicts of interest between personal investments of Board employees and agency investment activities; prohibit receipt of gifts or favors which would provide an improper personal benefit to an employee; protect confidential information; and govern service of employees on outside boards of directors. The amendments clean up wording to incorporate Board interpretations of the existing rules in a manner that is consistent with current investment industry standards as well as provisions of the State Ethics Code in ss. 19.41 to 19.59, Stats., and the Code of Ethics for state employees in ER-MRS 24. An acknowledgement that federal law and professional codes of conduct may apply to personal investments of Board employees, (e.g., restrictions on insider trading and frontrunning) is inserted in the rule.

The proposed order also reflects evolution of the Investment Board's structure and operations, as well as related changes in the law since Ch IB 1 was promulgated in 1983. The chief investment officer (created by 1995 act 274) is included as a potential approval

authority for employe personal investment transactions; the recent creation of limited liability companies and partnerships as a form of business entity is reflected; use of reporting forms for personal investments and for receipt of third-party expense reimbursements is acknowledged; the transfer of most Board positions to the unclassified civil service by 1987 act 399 is recognized; and application of the Open Records Law as determinative of what information is considered confidential at the Board is acknowledged.

The current reference in IB 1.06 to prohibitions on dual state employment by full-time employes is deleted as superfluous, because the prohibition is already set forth in s. 16.417, Stats. The definition of "financial interest" is broadened to include new investment instruments and is cross-referenced to investment restrictions in s. 25.16 (2), Stats., to clarify use of that term in the Statute. A cross-reference change is also made in IB 2.02 (5) to reflect the creation of s. 25.15, Stats., by 1983 act 27 as the Investment Board's primary standard of fiduciary responsibility.

Text of Rule

SECTION 1. IB 1.02 (2) is renumbered and amended to read:

IB 1.02 (3) "Confidential information" means any information that is ~~created by and within~~ held by the board and is not available for public inspection ~~or, any information received by the board from another person under a pledge of confidentiality and which is not for sale by the provider to others and is not available for public inspection.~~

SECTION 2. IB 1.02 (2) is created to read:

IB 1.02 (2) "Chief investment officer" means the person appointed by the executive director as chief investment officer under s. 25.16 (2), Stats.

SECTION 3. IB 1.02 (3), (4), and (5) are renumbered IB 1.02 (4), (5), and (6) and amended to read:

IB 1.02 (4) "Employee" means the executive director, executive assistant and all full and part-time ~~classified~~ persons including investment directors hired to work for the board and paid by a state of Wisconsin payroll check. Members of the board are not employees for the purposes of these rules.

(5) "Executive director" means the person appointed by the members of the board as executive director under s. 25.156 (2), Stats., or in his or her absence or disability, the person appointed as assistant executive director under s. 25.156 (3), Stats.

(6) "Family" means an employee's spouse and any other person related by blood, adoption, or marriage to an employee of the board who where such other person is living in the same personal residence as the employee and either receives, directly or indirectly, more than one-half of his or her support from the employee or from whom the employee receives, directly or indirectly, more than one-half of his or her support.

SECTION 4. IB 1.02 (6) is renumbered IB 1.02 (7).

SECTION 5. IB 1.02 (7), (8), (9), (10), (11), and (12) are renumbered IB 1.02 (8), (9), (10), (11), (12), and (13) and amended to read:

IB 1.02 (8) "Financial interest" means any direct or indirect equity or debt interest and includes any form of stock, a security convertible into stock, a right, option or warrant to purchase stock, a derivative instrument, any form of debt instrument, a limited partnership interest, a partner's interest in a partnership, a membership in an association or joint venture, an interest in a limited liability company or partnership, or the interest of a sole proprietor, but excludes mortgages on an employee's home or other residence and other consumer loans and, for purposes of s. 25.16 (2), Stats., ownership of less than one-half of one percent of any class of publicly traded securities.

(9) "Firm" means a corporation, partnership, association, joint venture, ~~or~~ limited liability company or partnership, sole proprietor, or other business entity.

(10) "Gift" means the giving of real or personal property or services, including a payment, advance, loan, forbearance, the promise of future employment, or any other item having value ~~by one person~~ to an employe of the board or a member of the family of an employe without the exchange of fair value or the expectation of a similar gift or favor in return, but does not include expressions of sympathy or similar items of minimal value not intended to influence the employe's judgment, nor does it include compensation, fees, expenses, or payments received for the benefit of the board under IB 1.03 (2).

(11) "Indirectly" or "indirect" means the purchase of or holding a financial interest in the name of another, including a member of the employe's family, or through the use of a nominee or brokers account, but does not include underlying holdings of a registered investment company in which an employe has an interest.

(12) "Investment" ~~means~~ includes the purchase and holding of stocks, bonds, evidences of indebtedness whether or not collateralized, mortgages or real estate or any interest therein, including but not limited to options and futures, and derivative or convertible instruments, for the purpose of providing the purchaser with income, capital gain or any other form of a return on the invested money but does not include any savings account, certificate of deposit, domestic government or agency security, shares or units of a registered investment company, purchase of a personal residence or recreational residence or, personal possessions such as furniture, fixtures, jewelry, appliances or motor vehicles.

(13) "Owns" means the power to sell or direct the sale of an investment and ~~including~~ includes the power to make sales under a power of attorney.

SECTION 6. IB 1.02 (12), (13), and (14) are renumbered IB 1.02 (13), (14), and (15).

SECTION 7. IB 1.02 (15) is renumbered IB 1.02 (16) and amended to read:

(16) "Services" ~~means either~~ includes the offering of professional services, advice, counsel, evaluation, or analysis of

relating to property, investments or companies to invest in or portfolios of investments or other board activities, for remuneration either through commissions or underwriting, fees or concessions or the offering of a market for any type of security or interest in a security, including but not limited to futures or options and other derivative or convertible instruments, traded either on a formal exchange or otherwise.

SECTION 8. IB 1.03 is amended to read:

IB 1.03 Gifts or favors. (1) An employe or a member of an employe's family may not during the period the employe is employed by the board directly or indirectly knowingly accept or retain any personal gift or favor from any person representing a firm currently providing services to the board or ~~a company or institution~~ in which the board is holding an investment or ~~where~~ that has made a written pending proposal for an investment or for provision of services ~~has been sent to the members of the board.~~

(2) This section does not ~~apply to~~ prohibit acceptance of conference fee payments, meals, travel expense, accommodations or social functions furnished to an employe attending any duly authorized conference, meeting or, due diligence investigation or similar event which provides the board with information required to investigate, analyze or protect an investment or proposed investment or any other financial interest of the board nor does it apply to ~~promotional or other minor items that are used and retained at the offices~~ received at and accrue to the benefit of the board.

SECTION 9. IB 1.03 (3) and (4) are created to read:

IB 1.03 (3) Any payments or items which are accepted by an employe under sub. (2) shall be reported in accordance with procedures that may be established by the executive director to implement any applicable legal, regulatory, agency guideline or professional code standards or requirements.

Note: Reporting forms may be obtained from the Executive Director of the Investment Board.

(4) The board may contribute items received from third parties which cannot be used to its benefit to charities, or may contribute funds to charities raised through sale of such items which may not practicably be directly contributed.

SECTION 10. IB 1.04 (3) is amended to read:

IB 1.04 (3) This section does not ~~apply to prohibit holding or acquisition of~~ a financial interest in a ~~corporation which owns stock in a~~ firm providing services to the board if the net income ~~provided by to the firm from~~ providing services to the board is less than 10% of the annual net income of the ~~corporation owning the stock firm.~~

SECTION 11. IB 1.05 (title) and 1.05 are amended to read:

IB 1.05 PERSONAL INVESTMENTS BY EMPLOYES OF THE BOARD. (1) Employes may not directly or indirectly purchase or hold any stock or convertible bond being sold as a new issue at the time it is offered to the public for the first time. An employe may purchase and own a stock or convertible bond which was offered to the public for the first time if the employe purchases it after it is publicly traded.

(2) An employe may purchase, ~~hold and,~~ or sell any other investment ~~provided when in compliance with requirements of this chapter if the investment is being purchased, held or sold by the board prior to the time of purchase or sale by the employe, the employe discloses in writing to~~ obtains advance written approval from the executive director ~~the purchase or sale, and either states .~~ The executive director may delegate authority to approve employe personal investment transactions to the chief investment officer, assistant executive director, legal counsel, or an investment director. The employe must confirm that the purchase or sale is not based upon confidential information confidential to of the board, ~~or receives permission from the executive director.~~ Permission for the purchase or sale based upon the executive director finding that the purchase or sale shall be granted if the purchase or sale is not found to be in conflict with the board's

purchase, sale or holding interests or applicable legal and professional codes, guidelines, and regulations.

SECTION 12. IB 1.05 (3) is created to read:

IB 1.05 (3) Procedures for preclearance and monitoring of employe personal investments may be established by the executive director to implement any applicable legal, regulatory, agency guideline or professional code standards or requirements.

Note: Personal investment approval request forms may be obtained from the Executive Director of the Investment Board.

SECTION 13. IB 1.06 is repealed.

SECTION 14. IB 1.08 (1) (intro), (2) (intro) and (b), (3) and (4) are amended to read:

IB 1.08 (1) (intro) An employe of the board may serve in any position, including a directorship, of a non-profit ~~corporation-firm~~, fraternal organization, or religious organization provided:

(2) (intro) An employe of the board may serve as a director of any for-profit ~~corporation, company, association, or joint venture firm~~ and receive and retain any remuneration provided:

(b) The ~~companies'~~ executive director determines that the firm's bonds, stock or debt are not likely to become the subject of investments which the board would purchase and,

(3) An employe of the board may serve as a director of a ~~corporation, company or joint venture firm~~ in which the board has an investment only when the board approves such service in advance and any remuneration received by the employe is paid to the board.

(4) If an employe is serving as a director at the time an investment in that ~~company, corporation or joint venture firm~~ is submitted as a proposed investment to the board, such service shall

immediately be brought to the attention of the board and the employe shall immediately disassociate himself or herself from the investment analysis and the decision making process. If the board subsequently invests in the company and the employe elects to continue as a director, then during the time the board holds any investment in that company, the employe shall pay any remuneration received during that period to the board. At such time as the board no longer holds any investment in the company, the employe may again receive and retain any remuneration.

SECTION 15. IB 1.09 (1) is amended to read:

IB 1.09 (1) No employe of the board may release confidential or privileged information without ~~the written~~ approval of the executive director or the board's legal counsel.

SECTION 16. IB 2.02 (5) is amended to read:

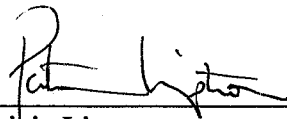
IB 2.02 (5) In addition to sub. (4), it shall be determined whether the investment is a prudent investment under ~~ch. 881, s. 25.15~~, Stats., or other applicable standards unless the statutes governing the fund specifically state that the investment board is relieved of any obligation of prudent investing or may invest a part of the fund in the specific type of investment.

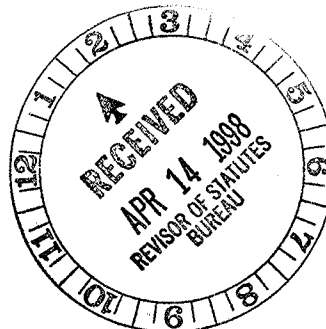
Effective Date

This rule shall take effect on the first day of the month following publication in the Wisconsin Administrative Register as provided in s. 227.22 (2) (intro), Stats.

Dated: April 13, 1998

Agency: _____


Patricia Lipton
Executive Director
State of Wisconsin Investment Board





State of Wisconsin Investment Board

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13 April 1998

Gary L. Poulson, Deputy Revisor
Revisor of Statutes Bureau
131 W. Wilson Street
Madison, WI 53703-3233

Re: **Publication and Filing of Final Rulemaking Order**

Dear Mr. Poulson:

Pursuant to ss. 227.20 and 227.21 of the Statutes, I am providing the enclosed final Order of the State Investment Board promulgating rules relating to restrictions on Investment Board employees. Copies of the Order are also being sent to the Secretary of State for filing.

Feel free to contact me at 266-8824, if you have any questions or require further assistance.

Sincerely,

Keith Johnson
Assistant Legal Counsel

Enclosure

