

1 AN ACT relating to state financial practices.

2 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

3 ➔Section 1. KRS 42.500 is amended to read as follows:

4 (1) There shall be a State Investment Commission composed of:

- 5 (a) The State Treasurer who shall be chairman;
- 6 (b) The secretary of the Finance and Administration Cabinet;
- 7 (c) The state controller; and
- 8 (d) Two (2) persons appointed by the Governor.

9 (2) The individuals appointed by the Governor shall be selected as follows:

10 **(a)** One (1) to be selected from a list of five (5) submitted to the Governor by the
 11 Kentucky Bankers Association;~~[,] and~~

12 **(b)** One (1) to be selected from a list of five (5) submitted to the Governor by the
 13 Independent Community Bankers Association.

14 (3) **(a)** The State Investment Commission shall meet at least quarterly to review
 15 investment performance and conduct other business.

16 **(b)** This **subsection**~~[provision]~~ shall not prohibit the commission from meeting
 17 more frequently as the need arises.

18 (4) **(a)** The State Treasurer and secretary of the Finance and Administration Cabinet
 19 shall each have the authority to designate, by an instrument in writing over his
 20 or her signature and filed with the secretary of the commission as a public
 21 record of the commission, an alternate with full authority to:

22 ~~1. (a)~~ Attend in the member's absence, for any reason, any properly
 23 convened meeting of the commission; and

24 ~~2. (b)~~ Participate in the consideration of, and vote upon, business and
 25 transactions of the commission.

26 **(b)** Each alternate **designated under this subsection** shall be a person on the staff
 27 of the appointing member or in the employ of the appointing member's state

1 agency or department.

2 (5) Any designation of an alternate under subsection (4) of this section may, at the
3 appointing member's direction:

4 (a) Be limited upon the face of the appointing instrument to be effective for only
5 a specific meeting or specified business;

6 (b) Be shown on the face of the appointing instrument to be a continuing
7 designation, for a period of no more than four (4) years, whenever the
8 appointing member is unable to attend; or

9 (c) Be revoked at any time by the appointing member in an instrument in writing,
10 over his or her signature, filed with the secretary of the commission as a
11 public record of the commission.

12 (6) (a) Any person transacting business with, or materially affected by, the business
13 of the commission may accept and rely upon a joint certificate of the secretary
14 of the commission and any member of the commission concerning the
15 designation of any alternate, the time and scope of the designation, and, if it is
16 of a continuing nature, whether and when the designation has been revoked.

17 (b) The joint certificate shall be made and delivered to the person requesting it
18 within a reasonable time after it has been requested in writing, with acceptable
19 identification of the business or transaction to which it refers and the
20 requesting person's interest in the business or transaction.

21 (7) (a) Any three (3) persons who are members of the commission or alternates
22 authorized under subsections (4) and (5) of this section shall constitute a
23 quorum and may, by majority vote, transact any business of the commission.

24 (b) Any three (3) members of the commission may call a meeting.

25 (8) The provisions of KRS 61.070 shall not apply to members of the commission.

26 (9) Subject to subsection (11) of this section, the commission shall have authority and
27 may, if in its opinion the cash in the State Treasury is in excess of the amount

- 1 required to meet current expenditures, invest any and all of the excess cash in:
- 2 (a) Obligations and contracts for future delivery of obligations backed by the full
- 3 faith and credit of the United States or a United States government agency,
- 4 including but not limited to:
- 5 1. United States Treasury;
- 6 2. Export-Import Bank of the United States;
- 7 3. ~~{}Farmers Home Administration;~~
- 8 4. ~~{}Government National Mortgage Corporation; and~~
- 9 4.5. ~~{}Merchant Marine bonds;~~
- 10 (b) Obligations of any corporation of the United States government or
- 11 government-sponsored enterprise, including but not limited to:
- 12 1. Federal Home Loan Mortgage Corporation;
- 13 2. Federal Farm credit banks and ~~{}:~~
- 14 a. ~~{}Bank for cooperatives;{~~
- 15 b. ~~{}Federal Intermediate Credit Banks; and~~
- 16 c. ~~{}Federal Land Banks;}~~
- 17 3. Federal Home Loan Banks;
- 18 4. Federal National Mortgage Association; and
- 19 5. Tennessee Valley Authority obligations;
- 20 (c) Collateralized or uncollateralized certificates of deposit, issued by banks rated
- 21 in one (1) of the three (3) highest categories by a nationally recognized
- 22 statistical rating organization or other interest-bearing accounts in depository
- 23 institutions chartered by this state or by the United States, except for shares in
- 24 mutual savings banks;
- 25 (d) Bankers acceptances for banks rated in the highest short-term category by a
- 26 nationally recognized statistical rating organization;
- 27 (e) Commercial paper rated in the highest short-term category by a nationally

- 1 recognized statistical rating organization;
- 2 (f) Securities issued by a state or local government, or any instrumentality or
3 agency thereof, in the United States, and rated in one (1) of the three (3)
4 highest long-term categories by a nationally recognized statistical rating
5 organization;
- 6 (g) United States denominated corporate, Yankee, and Eurodollar securities,
7 excluding corporate stocks, issued by foreign and domestic issuers, including
8 sovereign and supranational governments, rated in one (1) of the three (3)
9 highest long-term categories by a nationally recognized statistical rating
10 organization;
- 11 (h) Asset-backed securities rated in the highest category by a nationally
12 recognized statistical rating organization;
- 13 (i) Shares of mutual funds, each of which shall have the following
14 characteristics:
- 15 1. The mutual fund shall be an open-end diversified investment company
16 registered under the federal Investment Company Act of 1940, as
17 amended;
- 18 2. The management company of the investment company shall have been
19 in operation for at least five (5) years;
- 20 3. The mutual fund shall be rated in the highest category by a nationally
21 recognized statistical rating organization; and
- 22 4. All of the securities in the mutual fund shall be eligible investments
23 pursuant to this section; ~~and~~
- 24 (j) State and local delinquent property tax claims which upon purchase shall
25 become certificates of delinquency secured by interests in real property not to
26 exceed twenty-five million dollars (\$25,000,000) in the aggregate. For any
27 certificates of delinquency that have been exonerated pursuant to KRS

1 132.220(5), the Department of Revenue shall offset the loss suffered by the
2 Finance and Administration Cabinet against subsequent local distributions to
3 the affected taxing districts as shown on the certificate of delinquency;[-]

4 **(k) Digital assets, other than stablecoins, that:**

5 **1. Have a market capitalization of over seven hundred fifty billion**
6 **dollars (\$750,000,000,000) averaged over the previous calendar year;**

7 **and**

8 **2. Are held:**

9 **a. Directly by the commission or the commission's designee**
10 **through the use of a secure custody solution;**

11 **b. On behalf of the state by a qualified custodian; or**

12 **c. In the form of an exchange traded product issued by an**
13 **investment company registered under the federal Investment**
14 **Company Act of 1940, as amended;**

15 **(l) Stablecoins that have received appropriate regulatory approval or**
16 **authorization from the competent authorities of the United States or any**
17 **state of the United States; and**

18 **(m) Bullion that is held:**

19 **1. In the form of an exchange traded product; or**

20 **2. In physical form by:**

21 **a. A qualified custodian;**

22 **b. The state; or**

23 **c. The state in conjunction with another state in accordance with**
24 **an administrative regulation promulgated by the commission**
25 **under Section 2 of this Act.**

26 **(10) As used in this section:**

27 **(a) "Bullion":**

- 1 1. Means bars, ingots, or coins, which are:
- 2 a. Made of gold, silver, platinum, palladium, or a combination of
- 3 these metals;
- 4 b. Valued based on the content of the metal and not its form; and
- 5 c. Used, or have been used, as a medium of exchange, security, or
- 6 commodity by any state, the United States government, or a
- 7 foreign nation; and
- 8 2. Does not include medallions or coins that are incorporated into a
- 9 pendant or other jewelry;
- 10 (b) "Central bank digital currency":
- 11 1. Means a digital currency, digital medium of exchange, or digital
- 12 monetary unit of account that is:
- 13 a. Issued and made directly available to the public; or
- 14 b. Processed or validated;
- 15 by the United States Federal Reserve System, a federal agency, or a
- 16 foreign government; and
- 17 2. Does not include a digital asset that is:
- 18 a. Backed by legal tender or government treasuries; and
- 19 b. Issued by a qualified entity;
- 20 (c) 1. "Digital asset":
- 21 a. Except as provided in subdivision b. of this subparagraph, means
- 22 virtual currency, cryptocurrencies, natively electronic assets, or
- 23 other digital-only assets that confer economic, proprietary, or
- 24 access rights or powers; and
- 25 b. Does not include central bank digital currency.
- 26 2. As used in this paragraph, "natively electronic asset" includes a
- 27 stablecoin and a nonfungible token;

1 (d) "Exchange traded product" means any financial instrument that:

2 1. Is approved or registered:

3 a. By the Securities and Exchange Commission or Commodity
4 Futures Trading Commission; or

5 b. Under KRS Chapter 292;

6 2. Is traded on a United States-regulated exchange; and

7 3. Derives its value from an underlying pool of assets including but not
8 limited to stocks, bonds, commodities, and indexes;

9 (e) "Qualified custodian" means any:

10 1. Federal or state-chartered bank, trust company, or special purpose
11 depository institution; or

12 2. State-regulated company that provides custody of digital assets for an
13 exchange traded product;

14 (f) "Qualified entity" means an entity that is not:

15 1. The United States Federal Reserve System;

16 2. A federal agency;

17 3. A foreign government; or

18 4. An instrumentality or agent of an entity referenced in subparagraph
19 1., 2., or 3. of this paragraph;

20 (g) 1. "Secure custody solution" means a technological product or blended
21 technological product and service:

22 a. That secures digital assets with cryptographic private keys that
23 are:

24 i. Exclusively known and accessible by the commission or the
25 commission's designee;

26 ii. Exclusively contained within an encrypted environment
27 and accessible only via end-to-end encrypted channels;

- 1 iii. Never contained or accessible by or controllable via a
2 smartphone; and
- 3 iv. Stored on hardware that is maintained in at least two (2)
4 geographically diversified specially designated secure data
5 centers; and
- 6 b. Where the provider of the product, or blended product and
7 service, complies with or ensures compliance with the following
8 protocols for the product or blended product and service:
- 9 i. Enforces a multiparty governance structure for authorizing
10 transactions;
- 11 ii. Enforces user access controls;
- 12 iii. Logs all user-initiated actions;
- 13 iv. Has implemented a disaster recovery protocol that ensures
14 access to assets in the event the provider becomes
15 unavailable;
- 16 v. Undergoes regular code audits and penetration testing
17 from audit firms; and
- 18 vi. Remedies any vulnerabilities identified in an audit or test
19 referenced in subpart v. of this subdivision promptly.
- 20 2. As used in this paragraph, "private key" means a unique element of
21 cryptographic data that is:
- 22 a. Used for signing transactions on a blockchain; and
- 23 b. Known to the owner of the unique element; and
- 24 (h) "Stablecoin" means a natively electronic asset that is:
- 25 1. Issued by a qualified entity that is backed by United States dollars or
26 high-quality liquid assets; and
- 27 2. Redeemable on demand by the holder at par for a fixed monetary

1 value in equivalent United States dollars~~[The State Investment~~
 2 Commission shall promulgate administrative regulations for the
 3 investment and reinvestment of state funds in shares of mutual funds,
 4 and the regulations shall specify:

- 5 (a) ~~The long and short term goals of any investment;~~
 6 (b) ~~The specification of moneys to be invested;~~
 7 (c) ~~The amount of funds which may be invested per instrument;~~
 8 (d) ~~The qualifications of instruments; and~~
 9 (e) ~~The acceptable maturity of investments].~~

10 (11) (a) The total amount of excess cash invested under subsection (9)(k), (l), and
 11 (m) of this section shall not, at the time of the investment is made, exceed
 12 ten percent (10%) of the total amount of excess cash invested under
 13 subsection (9) of this section.

14 (b) Notwithstanding any other provision of this section or any other law, the
 15 commission shall not invest any excess cash or other funds in central bank
 16 digital currency.

17 (12) Any investment in obligations and securities pursuant to~~[subsection (9) of]~~ this
 18 section may be~~[shall satisfy this section if these obligations are]~~ subject to
 19 repurchase agreements, provided that delivery of these obligations is taken either
 20 directly or through an authorized custodian.

21 (13)~~[(12)]~~ (a) Income earned from investments made pursuant to this section shall
 22 accrue to the credit of the investment income account of the general fund,
 23 except that interest from investments of excess cash in the road fund shall be
 24 credited to the surplus account of the road fund and interest from investments
 25 of excess cash in the game and fish fund shall be credited to the game and fish
 26 fund, interest earned from investments of imprest cash funds and funds in the
 27 trust and revolving fund for each state public university shall be credited to

1 the appropriate institutional account, and interest earned from the investment
2 of funds accumulated solely by means of contributions and gifts shall not be
3 diverted to any purpose other than that stipulated by the donor, when the
4 donor shall have designated the use to which the interest shall be placed.

5 (b) Except as otherwise provided by law, or by the obligations and covenants
6 contained in resolutions and trust indentures adopted or entered into for state
7 bond issues, interest earned from the investment of moneys appropriated to
8 the capital construction accounts, trust and agency accounts, and trust and
9 agency revolving accounts shall accrue to the capital construction investment
10 income account.

11 (c) 1. If there is a revenue shortfall, as defined in KRS 48.010, of five percent
12 (5%) or less, the secretary of the Finance and Administration Cabinet,
13 upon the recommendation of the state budget director, may direct the
14 transfer of excess unappropriated capital construction investment
15 income to the general fund investment income account.

16 2. The amount of the transfer shall not exceed the amount of the shortfall
17 in general fund revenues.

18 (d) 1. If the capital construction investment income is less than that amount
19 appropriated by the General Assembly, the secretary of the Finance and
20 Administration Cabinet may, upon recommendation of the state budget
21 director, direct the transfer of excess unappropriated general fund
22 investment income to the capital construction investment income
23 account.

24 2. The transfer of general fund investment income revenues to the capital
25 construction investment income account shall be made only when the
26 actual general fund revenues are in excess of the enacted estimates
27 under KRS 48.120 and shall be limited to the amount of the excess

1 general fund revenues.

2 **3.** The amount of the transfer shall not exceed the amount of the shortfall
3 in the capital construction fund revenues.

4 ~~(14)~~~~(13)~~ The authority granted by this section to the ~~State Investment~~ commission
5 shall not extend to any funds that are specifically provided by law to be invested by
6 some other officer or agency of the state government.

7 ~~(15)~~~~(14)~~ The authority granted by this section to the ~~State Investment~~ commission
8 shall only be exercised pursuant to the administrative regulations mandated by KRS
9 42.525.

10 ~~(16)~~~~(15)~~ Each member of the ~~State Investment~~ commission shall post bond for his or
11 her acts or omissions as a member thereof identical in amount and kind to that
12 posted by the State Treasurer.

13 ➔Section 2. KRS 42.525 is amended to read as follows:

14 (1) The State Investment Commission shall promulgate administrative regulations for
15 the investment and reinvestment of state funds and the acquisition, retention,
16 management, and disposition of investments.

17 (2) The administrative regulations required under subsection (1) of this section shall:

18 (a) Specify:

19 1.~~(a)~~ The long and short term goals of any investment;

20 2.~~(b)~~ The specification of moneys to be invested;

21 3.~~(c)~~ The amount of funds which may be invested per instrument;

22 4.~~(d)~~ The qualifications of instruments;

23 5.~~(e)~~ The acceptable maturity of investments;

24 6.~~(f)~~ The investment procedure with respect to in-state and out-of-state
25 depositories provided that funds available for investment shall be
26 offered first to qualified Kentucky depositories consistent with the
27 investment guidelines; and

1 ~~7.(g)~~ The distribution method of funds among types of institutions; and
 2 (b) Set forth the requirements provided in paragraph (a)1. to 5. of this
 3 subsection for the investment and reinvestment of state funds in shares of
 4 mutual funds.

5 (3) The commission may promulgate any other administrative regulations to carry
 6 out and effectuate subsections (9)(k), (l), and (m), (10), and (11) of Section 1 of
 7 this Act.

8 ➔SECTION 3. A NEW SECTION OF KRS CHAPTER 42 IS CREATED TO
 9 READ AS FOLLOWS:

10 (1) As used in this section, "exchange traded product" has the same meaning as in
 11 of Section 1 of this Act.

12 (2) Notwithstanding any other law:

13 (a) Any state retirement fund may invest, or be invested, in exchange traded
 14 products; and

15 (b) Any deferred compensation plan offered by the state or any state agency
 16 may offer participants of the plan the option to invest in exchange traded
 17 products.

18 ➔Section 4. KRS 45.345 is amended to read as follows:

19 (1) As used in this section, the following terms have the same meaning as in Section
 20 1 of this Act:

21 (a) "Bullion";

22 (b) "Central bank digital currency";

23 (c) "Digital asset"; and

24 (d) "Exchange traded product."

25 (2) In addition to any payment method authorized by law~~[,]~~ and notwithstanding any
 26 statute to the contrary, *except as otherwise provided in this section and Section 5*
 27 of this Act, any state agency may accept the following methods of payment to

1 secure funds for deposit into the State Treasury:

2 (a) Credit card;

3 (b) Debit card;

4 (c) Electronic check;

5 (d) Automated clearinghouse (ACH) debit;~~[-or]~~

6 (e) **Digital assets;**

7 **(f) Bullion, when in the form of an exchange traded product; or**

8 **(g) Any other electronic payment method not prohibited under subsection (4) of**
 9 **this section,** upon the prior written approval of both the Finance and
 10 Administration Cabinet and the Office of the State Treasurer.

11 ~~(3)~~~~(2)~~ Any fees charged to a state agency by the provider of the payment services
 12 listed in subsection (1) of this section shall be deemed to represent collection
 13 expenses and may be considered normal operating expenses of the agency, or the
 14 agency may collect convenience fees from users to supplement agency costs of
 15 delivering services.

16 **(4) A state agency shall not, either directly or through any of the methods listed in**
 17 **subsection (2)(a), (b), (c), or (d) of this section or through another method, accept**
 18 **central bank digital currency as payment to secure funds for deposit into the State**
 19 **Treasury or for any other purpose.**

20 ➔SECTION 5. A NEW SECTION OF KRS CHAPTER 131 IS CREATED TO
 21 READ AS FOLLOWS:

22 **(1) As used in this section, the following terms have the same meaning as in Section**
 23 **1 of this Act:**

24 **(a) "Bullion";**

25 **(b) "Central bank digital currency";**

26 **(c) "Digital asset"; and**

27 **(d) "Exchange traded product."**

1 (2) (a) Except as otherwise provided in paragraph (b) of this subsection, in
 2 addition to any payment method authorized by law, the department may
 3 accept any method of payment authorized under Section 4 of this Act to
 4 secure funds for payment of any tax bill issued by the department.

5 (b) The department shall accept all of the following as a method of payment to
 6 secure funds for payment of any tax bill issued by the department:

7 1. Digital assets; and

8 2. Bullion, when in the form of an exchange traded product.

9 (3) This section shall not apply to sheriffs, county clerks, or any other local
 10 government entity that collects payments on behalf of the department.

11 (4) When accepting payments in accordance with this section, the department may
 12 collect convenience fees in accordance with subsection (3) of Section 4 of this
 13 Act.

14 ➔Section 6. KRS 41.070 is amended to read as follows:

15 (1) As used in this section, the following terms have the same meaning as in Section
 16 1 of this Act:

17 (a) "Central bank digital currency";

18 (b) "Digital asset"; and

19 (c) "Stablecoin."

20 (2) Unless otherwise expressly provided by law, no receipts from any source of state
 21 money or money for which the state is responsible shall be held, used, or deposited
 22 in any personal or special bank account, temporarily or otherwise, by any agent or
 23 employee of any budget unit, to meet expenditures or for any other purpose.

24 ~~(3)~~~~(2)~~ (a) All receipts of any character of any budget unit, all revenue collected for
 25 the state, and all public money and dues to the state shall be deposited in state
 26 depositories in the most prompt and cost-efficient manner available.

27 (b) However, in the case of state departments or agencies located outside

1 Frankfort, and all state institutions, the Finance and Administration Cabinet
2 may permit temporary deposits to be made to the accounts maintained by the
3 agency, department, or institution in a state depository for a period not to
4 exceed thirty (30) days, and may require that the money be forwarded to the
5 State Treasury at the time and in the manner and form prescribed by the
6 cabinet.

7 (c) ~~[Nothing in]~~This section shall ***not*** be construed as authorizing any
8 representative of any agency, department, or institution to enforce or cash,
9 even for the purpose of a deposit, any check or other instrument of value
10 payable to the Commonwealth or any agency thereof.

11 (4)~~[(3)]~~ Each agency depositing its receipts directly with the State Treasurer shall do
12 so in the manner approved by the State Treasurer as agent in charge of public fund
13 deposits.

14 (5)~~[(4)]~~ (a) The Department of Revenue may deposit receipts to the credit of the
15 State Treasury directly with a state depository utilized by the Commonwealth
16 for its primary banking services.

17 (b) 1. The State Treasurer, with the approval of the Finance and
18 Administration Cabinet, may authorize other agencies to deposit receipts
19 directly with a state depository to the credit of the State Treasury if the
20 Treasurer prescribes the manner in which the deposit is to be made, and
21 the forms and reports to be filed with the Treasury Department.

22 2. The Finance and Administration Cabinet shall prescribe the forms and
23 reports to be filed with it when this type of deposit is made.

24 (6)~~[(5)]~~ Each department, agency, or other budget unit which receives funds to be
25 deposited into the State Treasury shall maintain records to report adequately each
26 amount received, from whom received, and date received. Agency records shall be
27 easily reconcilable with the information forwarded to the State Treasurer.

1 (7) (a) When a department, agency, or other budget unit deposits a receipt of the
 2 following with a state depository, the State Treasurer, or to the credit of the
 3 State Treasury, the State Treasurer shall transfer the digital assets,
 4 including stablecoins, to the budget reserve trust fund account established
 5 in Section 7 of this Act, which shall reimburse the fund to which the digital
 6 assets, including stablecoins, were designated with United States currency:

7 1. Digital assets, other than stablecoins, having a market capitalization
 8 of over seven hundred fifty billion dollars (\$750,000,000,000)
 9 averaged over the previous calendar year; or

10 2. Stablecoins.

11 (b) When a department, agency, or other budget unit deposits a receipt of
 12 digital assets other than those referenced in paragraph (a)1. and 2. of this
 13 subsection with a state depository, the State Treasurer, or to the credit of the
 14 State Treasury, the State Treasurer shall:

15 1. Immediately convert the digital assets to United States currency; and

16 2. Transfer the United States currency to the fund to which the digital
 17 assets were designated.

18 (8) The State Treasurer shall not, under this section or any other law:

19 (a) Accept or authorize receipts or deposits of central bank digital currency; or

20 (b) Convert digital assets or any other receipts or deposits to central bank
 21 digital currency.

22 ➔Section 7. KRS 48.705 is amended to read as follows:

23 (1) A budget reserve trust fund account is hereby created in the general fund, pursuant
 24 to KRS 45.305. The budget reserve trust fund account shall be funded through
 25 direct appropriations, and surplus amounts as provided in subsection (2) of this
 26 section. Moneys in the account shall remain unallotted unless required by the
 27 provisions of this section.

- 1 (2) (a) Each fiscal year, except as provided in subsection (3) of this section, within
2 thirty (30) days of the end of the fiscal year, the secretary of the Finance and
3 Administration Cabinet shall cause to be deposited to the budget reserve trust
4 fund account the lesser of the following amounts:
- 5 1. Fifty percent (50%) of the general fund surplus; or
 - 6 2. The amount necessary from the general fund surplus to make the
7 balance of the budget reserve trust fund account equal to five percent
8 (5%) of the actual general fund receipts collected during the fiscal year
9 just ended, as determined by the Finance and Administration Cabinet.
- 10 (b) Any amounts to be deposited to the budget reserve trust fund account from the
11 general fund surplus shall be determined after the surplus has been reduced by
12 the amount necessary to implement the provisions of any surplus expenditure
13 plan authorized by KRS 48.140 and enacted as a part of a branch budget bill.
- 14 (3) If, at the close of any fiscal year, the budget reserve trust fund account has a balance
15 equal to or greater than five percent (5%) of the actual general fund receipts
16 collected during the fiscal year just ended, as determined by the Finance and
17 Administration Cabinet, the deposits required under subsection (2) of this section
18 shall be suspended for that year.
- 19 (4) Moneys in the budget reserve trust fund account may be appropriated by the
20 General Assembly in a regular or special session.
- 21 (5) Before authorizing any allotments from the budget reserve trust fund account, the
22 secretary of the Finance and Administration Cabinet shall notify in writing the
23 Interim Joint Committee on Appropriations and Revenue. The notice shall include
24 the amount and purpose for the proposed allotment.
- 25 (6) Within thirty (30) days of the close of each fiscal year, the secretary of the Finance
26 and Administration Cabinet shall report to the Interim Joint Committee on
27 Appropriations and Revenue the general fund receipts collected for the fiscal year

1 just ended, the balance of the budget reserve trust fund account, and any amounts
2 deposited to the budget reserve trust fund account pursuant to the provisions of
3 subsection (2) of this section.

4 (7) All sums appropriated or deposited to the budget reserve trust fund account shall
5 not lapse at the close of the fiscal year but shall carry forward into the next fiscal
6 year.

7 **(8) Notwithstanding any other provision of this section or any other law, the budget**
8 **reserve trust fund account shall make reimbursements in accordance with**
9 **subsection (7)(a) of Section 6 of this Act.**

10 ➔Section 8. KRS 16.642 is amended to read as follows:

11 (1) The board shall be the trustee of funds created by KRS 16.505 to 16.652 and KRS
12 61.701 and shall have full power to invest and reinvest such assets in accordance
13 with federal law.

14 (2) The board, through adopted written policies, shall maintain ownership and control
15 over its assets held in its unitized managed custodial account.

16 (3) The board, in keeping with its responsibility as trustee and wherever feasible, shall
17 give priority to the investment of funds in obligations calculated to improve the
18 industrial development and enhance the economic welfare of the Commonwealth.

19 (4) The investment committee established pursuant to KRS 61.650 shall serve as the
20 investment committee of the funds established by KRS 16.505 to 16.652.

21 (5) **(a)** Based upon market value at the time of purchase, the board shall limit the
22 amount of assets managed by any one (1) active or passive investment
23 manager to fifteen percent (15%) of the assets in the pension and insurance
24 funds.

25 **(b) The board may invest fund assets in exchange traded products as defined in**
26 **Section 1 of this Act.**

27 ➔Section 9. KRS 18A.255 is amended to read as follows:

- 1 (1) (a) Notwithstanding any other provision of KRS 18A.230 to 18A.275, funds held
2 for the State of Kentucky public employees deferred compensation trust fund
3 pursuant to agreement between the state and participating employees may be
4 invested in such investments as are deemed appropriate by the trustees,
5 including but not limited to:
- 6 1. Annuity contracts; and
7 2. Exchange traded products as defined in Section 1 of this Act.
- 8 (b) Agreements may be made in writing or by electronic record, signature, or
9 contract as determined by the authority in accordance with the provisions of
10 KRS 369.101 to 369.120 and shall not be denied legal effect or enforceability
11 if made electronically to the extent permitted by the authority.
- 12 (2) (a) Funds deposited to the credit of the trust fund from payroll deductions made
13 pursuant to KRS 18A.250 shall be temporarily invested as provided in KRS
14 42.500 until such funds are invested pursuant to the deferred compensation
15 agreements between the state and participating employees and actually
16 credited to accounts for plan participants.
- 17 (b) Notwithstanding KRS 42.500, interest earned from such temporary
18 investments shall be used to defray the expenses of administering the deferred
19 compensation system.
- 20 (3) (a) Neither the authority nor the board shall be liable for any losses or claims due
21 to a participant's actions in connection with the investment advice or financial
22 planning provided to the participant by operation of KRS 18A.245(7)(f) or
23 otherwise.
- 24 (b) The authority and board shall have no duty or obligation to monitor, review,
25 or assess the specific investment advice or financial planning provided to a
26 participant.
- 27 ➔Section 10. KRS 21.550 is amended to read as follows:

- 1 (1) (a) Those members of the board of trustees of the Judicial Form Retirement
2 System who are appointed by the Supreme Court, together with the members
3 appointed by the Governor, shall constitute an investment committee for the
4 Judicial Retirement Plan, and as such shall have full and sole authority over
5 the judicial retirement fund and the investment thereof, including the
6 prescribing of funding standards, the adoption of actuarial methods and
7 assumptions, and the making of employments or contracts for required
8 personal services, including administrative, actuarial, and investment
9 counseling services.
- 10 (b) The committee shall be considered trustee of the judicial retirement fund and
11 shall have the sole authority to make investment transactions or obtain
12 insurance contracts for funding purposes.
- 13 (c) The fund shall be invested in securities which, at the time of making the
14 investment, are by law permitted for the investment of funds by fiduciaries in
15 this state. ~~[, or]~~
- 16 (d) Funding may be accomplished in part by contract with a reputable life
17 insurance company authorized to do business in this state.
- 18 (e) To the extent that funding is provided through insurance contract, no
19 contributions, payments, or premiums shall be subject to any tax on insurance
20 premiums or annuity considerations.
- 21 (f) *The committee may invest fund assets in exchange traded products as*
22 *defined in Section 1 of this Act.*
- 23 (2) (a) The investment committee for the judicial retirement fund shall appoint one
24 (1) or more custodians of the securities acquired under authority of this
25 section, each of whom shall be responsible for the safekeeping of the
26 securities in his or her custody.
- 27 (b) All registered securities shall be registered in the name "Kentucky Judicial

1 Retirement Fund" (securities heretofore registered in the name "Kentucky
2 Judicial Retirement System" may continue in that name), or in nominee name
3 as provided comparably in KRS 286.3-225, and every change in registration,
4 by reason of sale or assignment of such securities, shall be accomplished by
5 the signatures of the chairman of the investment committee or a member of
6 that committee appointed by the chairman, and by the secretary-treasurer of
7 the fund.

8 ➔Section 11. KRS 61.650 is amended to read as follows:

9 (1) (a) The board shall be the trustee of funds created by KRS 16.510, 61.515, and
10 61.701 pertaining to the accounts for the Kentucky Employees Retirement
11 System or State Police Retirement System, notwithstanding the provisions of
12 any other statute to the contrary, and shall have exclusive power to invest and
13 reinvest such assets in accordance with federal law.

14 (b) 1. The board shall establish an investment committee whose membership
15 shall be composed of the following:

16 a. The three (3) trustees of the Kentucky Retirement Systems board
17 appointed by the Governor pursuant to KRS 61.645 who have
18 investment experience; and

19 b. Additional trustees appointed by the board chair.

20 2. The investment committee shall have authority to implement the
21 investment policies adopted by the board and act on behalf of the board
22 on all investment-related matters and to acquire, sell, safeguard,
23 monitor, and manage the assets and securities of the several funds.

24 (c) 1. For the purposes of this paragraph:

25 a. "Solely in the interest of the members and beneficiaries" shall be
26 determined using only pecuniary factors and shall not include any
27 purpose to further a nonpecuniary interest;

- 1 b. "Pecuniary factor" means a consideration having a direct and
2 material connection to the financial risk or financial return of an
3 investment;
- 4 c. A "material connection" is established if there is a substantial
5 likelihood that a reasonable investor would consider it important in
6 determining the financial risk or the financial return of an
7 investment;
- 8 d. "Nonpecuniary interest" includes but is not limited to an
9 environmental, social, political, or ideological interest which does
10 not have a direct and material connection to the financial risk or
11 financial return of an investment; and
- 12 e. "Investment manager" shall have the same definition attributed to
13 "investment adviser" under the federal Investment Advisers Act of
14 1940, 15 U.S.C. sec. 80b-2.
- 15 2. A trustee, officer, employee, employee of the Kentucky Public Pensions
16 Authority, investment manager, or other fiduciary, or proxy adviser shall
17 discharge duties with respect to the retirement system:
- 18 a. Solely in the interest of the members and beneficiaries;
- 19 b. For the exclusive purpose of providing benefits to members and
20 beneficiaries and paying reasonable expenses of administering the
21 system;
- 22 c. With the care, skill, and caution under the circumstances then
23 prevailing that a prudent person acting in a like capacity and
24 familiar with those matters would use in the conduct of an activity
25 of like character and purpose;
- 26 d. Impartially, taking into account any differing interests of members
27 and beneficiaries;

- 1 e. Incurring any costs that are appropriate and reasonable; and
- 2 f. In accordance with a good-faith interpretation of the federal, state,
- 3 and common law governing the system and fiduciaries.
- 4 3. Evidence that a fiduciary has considered or acted on a nonpecuniary
- 5 interest shall include but is not limited to:
- 6 a. Statements, explanations, reports, or correspondence;
- 7 b. Communications with portfolio companies;
- 8 c. Statements of principles or policies, whether made individually or
- 9 jointly;
- 10 d. Votes of shares or proxies; or
- 11 e. Coalitions, initiatives, agreements, or commitments to which the
- 12 fiduciary is a participant, affiliate, or signatory.
- 13 (d) In addition to the standards of conduct prescribed by paragraph (c) of this
- 14 subsection:
- 15 1. All internal investment staff of the Kentucky Public Pensions Authority,
- 16 and investment consultants shall adhere to the Code of Ethics and
- 17 Standards of Professional Conduct, and all board trustees shall adhere to
- 18 the Code of Conduct for Members of a Pension Scheme Governing
- 19 Body. All codes cited in this subparagraph are promulgated by the CFA
- 20 Institute;
- 21 2. Investment managers shall comply with all applicable provisions of the
- 22 federal Investment Advisers Act of 1940, as amended, and the rules and
- 23 regulations promulgated thereunder, and shall comply with all other
- 24 applicable federal securities statutes and related rules and regulations
- 25 that apply to investment managers; and
- 26 3. Proxy advisers and proxy voting services shall comply with all
- 27 applicable provisions of the Investment Advisers Act of 1940, as

1 amended, and the rules and regulations promulgated thereunder, and
2 shall comply with all other federal statutes and related rules and
3 regulations that apply to proxy advisers and proxy voting services.

4 (e) No contract or agreement, whether made in writing or not, shall in any
5 manner waive, restrict, or limit a fiduciary's liability as to any of the duties
6 imposed by this section. Any agreement shall specify that it is made in the
7 Commonwealth and governed by the laws of the Commonwealth.

8 (2) The board, through adopted written policies, shall maintain ownership and control
9 over its assets held in its unitized managed custodial account.

10 (3) The board, in keeping with its responsibility as trustee and wherever consistent with
11 its fiduciary responsibilities, shall give priority to the investment of funds in
12 obligation calculated to improve the industrial development and enhance the
13 economic welfare of the Commonwealth.

14 (4) The contents of real estate appraisals, engineering or feasibility estimates, and
15 evaluations made by or for the system relative to the acquisition or disposition of
16 property, until such time as all of the property has been acquired or sold, shall be
17 excluded from the application of KRS 61.870 to 61.884 and shall be subject to
18 inspection only upon order of a court of competent jurisdiction.

19 (5) (a) Based upon market value at the time of purchase, the board shall limit the
20 amount of assets managed by any one (1) active or passive investment
21 manager to fifteen percent (15%) of the assets in the pension and insurance
22 funds.

23 **(b) The board may invest fund assets in exchange traded products as defined in**
24 **Section 1 of this Act.**

25 (6) All contracts for the investment or management of assets of the systems shall not be
26 subject to KRS Chapters 45, 45A, 56, and 57. Instead, the board shall conduct the
27 following process to develop and adopt an investment procurement policy with

1 which all prospective contracts for the investment or management of assets of the
2 systems shall comply:

- 3 (a) On or before July 1, 2017, the board shall consult with the secretary of the
4 Finance and Administration Cabinet or his or her designee to develop an
5 investment procurement policy, which shall be written to meet best practices
6 in investment management procurement;
- 7 (b) Thirty (30) days prior to adoption, the board shall tender the preliminary
8 investment procurement policy to the secretary of the Finance and
9 Administration Cabinet or his or her designee for review and comment;
- 10 (c) Upon receipt of comments from the secretary of the Finance and
11 Administration Cabinet or his or her designee, the board shall choose to adopt
12 or not adopt any recommended changes;
- 13 (d) Upon adoption, the board shall tender the final investment procurement policy
14 to the secretary of the Finance and Administration Cabinet or his or her
15 designee;
- 16 (e) No later than thirty (30) days after receipt of the investment procurement
17 policy, the secretary or his or her designee shall certify whether the board's
18 investment procurement policy meets or does not meet best practices for
19 investment management procurement; and
- 20 (f) Any amendments to the investment procurement policy shall adhere to the
21 requirements set forth by paragraphs (b) to (e) of this subsection.
- 22 (7) (a) The board shall adopt written proxy voting guidelines which are consistent
23 with the fiduciary duties and other requirements of this section.
- 24 (b) The board shall not adopt the recommendations of a proxy adviser or proxy
25 voting service and shall not allow such proxy adviser or proxy voting service
26 to vote on behalf of the system, unless the proxy adviser or proxy voting
27 service acknowledges in writing and accepts under contract its duties under

1 this section and commits to follow the board-adopted proxy voting guidelines
2 when voting the system's shares in order to comply with the board's fiduciary
3 duties and other responsibilities under this section.

4 (c) All shares held by or on behalf of the system, and which the system is entitled
5 to vote under state, federal, or common laws, shall be voted according to the
6 proxy voting guidelines adopted by the board and subject to the fiduciary
7 duties and other requirements of this section by:

- 8 1. The board, the investment committee of the board, or an employee or
9 employees of the Authority who are fiduciaries under subsection (1) of
10 this section and are appointed or otherwise authorized by the board; or
- 11 2. A proxy adviser or proxy voting service that acknowledges in writing
12 and accepts under contract its duties under this section and commits to
13 follow the board-adopted proxy voting guidelines when voting the
14 system's shares in order to comply with the board's fiduciary duties and
15 other responsibilities under this section.

16 (d) All proxy votes shall be reported at least quarterly to the board. For each vote,
17 the report shall provide:

- 18 1. The vote caption;
- 19 2. The date of the vote;
- 20 3. The company's name;
- 21 4. The vote cast for the system;
- 22 5. The recommendation of the company's management; and
- 23 6. If applicable, the recommendation of the proxy adviser or proxy voting
24 service.

25 ➔Section 12. KRS 78.790 is amended to read as follows:

26 (1) (a) The board shall be the trustee of funds pertaining to the County Employees
27 Retirement System created by KRS 78.510 to 78.852, and KRS 61.701, and

1 shall have full and exclusive power to invest and reinvest such assets in
2 accordance with federal law.

3 (b) 1. The board shall establish an investment committee that shall include
4 members of the board with investment experience, elected members, or
5 other members as determined by the board chair, and may also include
6 nonvoting members who have investment expertise.

7 2. The investment committee shall have authority to implement the
8 investment policies adopted by the board and act on behalf of the board
9 on all investment-related matters.

10 (c) 1. For the purposes of this paragraph:

11 a. "Solely in the interest of the members and beneficiaries" shall be
12 determined using only pecuniary factors and shall not include any
13 purpose to further a nonpecuniary interest;

14 b. "Pecuniary factor" means a consideration having a direct and
15 material connection to the financial risk or financial return of an
16 investment;

17 c. A "material connection" is established if there is a substantial
18 likelihood that a reasonable investor would consider it important in
19 determining the financial risk or the financial return of an
20 investment;

21 d. "Nonpecuniary interest" includes but is not limited to an
22 environmental, social, political, or ideological interest which does
23 not have a direct and material connection to the financial risk or
24 financial return of an investment; and

25 e. "Investment manager" shall have the same definition attributed to
26 "investment adviser" under the federal Investment Advisers Act of
27 1940, 15 U.S.C. sec. 80b-2.

- 1 2. A trustee, officer, employee, employee of the Kentucky Public Pensions
2 Authority, investment manager, or other fiduciary, or proxy adviser shall
3 discharge duties with respect to the system:
- 4 a. Solely in the interest of the members and beneficiaries;
- 5 b. For the exclusive purpose of providing benefits to members and
6 beneficiaries and paying reasonable expenses of administering the
7 system;
- 8 c. With the care, skill, and caution under the circumstances then
9 prevailing that a prudent person acting in a like capacity and
10 familiar with those matters would use in the conduct of an activity
11 of like character and purpose;
- 12 d. Impartially, taking into account any differing interests of members
13 and beneficiaries;
- 14 e. Incurring any costs that are appropriate and reasonable; and
- 15 f. In accordance with a good-faith interpretation of the federal, state,
16 and common law governing the system and fiduciaries.
- 17 3. Evidence that a fiduciary has considered or acted on a nonpecuniary
18 interest shall include but is not limited to:
- 19 a. Statements, explanations, reports, or correspondence;
- 20 b. Communications with portfolio companies;
- 21 c. Statements of principles or policies, whether made individually or
22 jointly;
- 23 d. Votes of shares or proxies; or
- 24 e. Coalitions, initiatives, agreements, or commitments to which the
25 fiduciary is a participant, affiliate, or signatory.
- 26 (d) In addition to the standards of conduct prescribed by paragraph (c) of this
27 subsection:

- 1 1. All internal investment staff of the Kentucky Public Pensions Authority,
2 and investment consultants shall adhere to the Code of Ethics and
3 Standards of Professional Conduct, and all board trustees shall adhere to
4 the Code of Conduct for Members of a Pension Scheme Governing
5 Body. All codes cited in this subparagraph are promulgated by the CFA
6 Institute;
- 7 2. Investment managers shall comply with all applicable provisions of the
8 federal Investment Advisers Act of 1940, as amended, and the rules and
9 regulations promulgated thereunder, and shall comply with all other
10 applicable federal securities statutes and related rules and regulations
11 that apply to investment managers; and
- 12 3. Proxy advisers and proxy voting services shall comply with all
13 applicable provisions of the Investment Advisers Act of 1940, as
14 amended, and the rules and regulations promulgated thereunder, and
15 shall comply with all other federal statutes and related rules and
16 regulations that apply to proxy advisers and proxy voting services.
- 17 (e) No contract or agreement, whether made in writing or not, shall in any
18 manner waive, restrict, or limit a fiduciary's liability as to any of the duties
19 imposed by this section. Any agreement shall specify that it is made in the
20 Commonwealth and governed by the laws of the Commonwealth.
- 21 (2) The board, through adopted written policies, shall maintain ownership and control
22 over its assets held in its unitized managed custodial account.
- 23 (3) The board, in keeping with its responsibility as the trustee and wherever feasible,
24 shall give priority to the investment of funds in obligations calculated to improve
25 the industrial development and enhance the economic welfare of the
26 Commonwealth.
- 27 (4) The contents of real estate appraisals, engineering or feasibility estimates, and

1 evaluations made by or for the system relative to the acquisition or disposition of
2 property, until such time as all of the property has been acquired or sold, shall be
3 excluded from the application of KRS 61.870 to 61.884 and shall be subject to
4 inspection only upon order of a court of competent jurisdiction.

5 (5) (a) Based upon market value at the time of purchase, the board shall limit the
6 amount of assets managed by any one (1) active or passive investment
7 manager to fifteen percent (15%) of the assets in the pension and insurance
8 funds.

9 (b) *The board may invest fund assets in exchange traded products as defined in*
10 *Section 1 of this Act.*

11 (6) All contracts for the investment or management of assets of the system shall not be
12 subject to KRS Chapters 45, 45A, 56, and 57. Instead, the board shall conduct the
13 following process to develop and adopt an investment procurement policy with
14 which all prospective contracts for the investment or management of assets of the
15 system shall comply:

16 (a) The board shall consult with the secretary of the Finance and Administration
17 Cabinet or his or her designee to develop an investment procurement policy,
18 which shall be written to meet best practices in investment management
19 procurement;

20 (b) Thirty (30) days prior to adoption, the board shall tender the preliminary
21 investment procurement policy to the secretary of the Finance and
22 Administration Cabinet or his or her designee for review and comment;

23 (c) Upon receipt of comments from the secretary of the Finance and
24 Administration Cabinet or his or her designee, the board shall choose to adopt
25 or not adopt any recommended changes;

26 (d) Upon adoption, the board shall tender the final investment procurement policy
27 to the secretary of the Finance and Administration Cabinet or his or her

1 designee;

2 (e) No later than thirty (30) days after receipt of the investment procurement
3 policy, the secretary or his or her designee shall certify whether the board's
4 investment procurement policy meets or does not meet best practices for
5 investment management procurement; and

6 (f) Any amendments to the investment procurement policy shall adhere to the
7 requirements set forth by paragraphs (b) to (e) of this subsection.

8 (7) (a) The board shall adopt written proxy voting guidelines, which are consistent
9 with the fiduciary duties and other requirements of this section.

10 (b) The board shall not adopt the recommendations of a proxy adviser or proxy
11 voting service and shall not allow such proxy adviser or proxy voting service
12 to vote on behalf of the system, unless the proxy adviser or proxy voting
13 service acknowledges in writing and accepts under contract its duties under
14 this section and commits to follow the board-adopted proxy voting guidelines
15 when voting the system's shares in order to comply with the board's fiduciary
16 duties and other responsibilities under this section.

17 (c) All shares held by or on behalf of the system, and which the system is entitled
18 to vote under state, federal, or common laws, shall be voted according to the
19 proxy voting guidelines adopted by the board and subject to the fiduciary
20 duties and other requirements of this section by:

21 1. The board, the investment committee of the board, or an employee or
22 employees of the Authority who are fiduciaries under subsection (1) of
23 this section and are appointed or otherwise authorized by the board; or

24 2. A proxy adviser or proxy voting service that acknowledges in writing
25 and accepts under contract its duties under this section and commits to
26 follow the board-adopted proxy voting guidelines when voting the
27 system's shares in order to comply with the board's fiduciary duties and

1 other responsibilities under this section.

2 (d) All proxy votes shall be reported at least quarterly to the board. For each vote,
3 the report shall provide:

- 4 1. The vote caption;
- 5 2. The date of the vote;
- 6 3. The company's name;
- 7 4. The vote cast for the system;
- 8 5. The recommendation of the company's management; and
- 9 6. If applicable, the recommendation of the proxy adviser or proxy voting
10 service.

11 ➔Section 13. KRS 161.430 is amended to read as follows:

12 (1) (a) The board of trustees shall be the trustee of the funds of the retirement system
13 and shall have full power and responsibility for the purchase, sale, exchange,
14 transfer, or other disposition of the investments and moneys of the retirement
15 system. The board shall, by administrative regulation, establish investment
16 policies and procedures to carry out their responsibilities.

17 (b) 1. The board shall contract with experienced competent investment
18 managers to invest and manage assets of the system. The board may also
19 employ qualified investment staff to advise it on investment matters and
20 to invest and manage assets of the system not to exceed fifty percent
21 (50%) of the system's assets. The board may contract with one (1) or
22 more general investment consultants, as well as specialized investment
23 consultants, to advise it on investment matters.

24 2. All internal investment staff and investment consultants shall adhere to
25 the Code of Ethics and Standards of Professional Conduct, and all board
26 trustees shall adhere to the Code of Conduct for Members of a Pension
27 Scheme Governing Body, promulgated by the CFA Institute. Investment

1 managers shall comply with the federal Investment Advisers Act of
2 1940, as amended, and the rules and regulations promulgated thereunder
3 and shall comply with all other applicable federal securities statutes and
4 related rules and regulations that apply to investment managers.

5 3. No investment manager shall manage more than forty percent (40%) of
6 the funds of the retirement system.

7 **4. The board may invest assets of the system in exchange traded products**
8 **as defined in Section 1 of this Act.**

9 (c) The board may appoint an investment committee to act for the board in all
10 matters of investment, subject to the approval of the board of trustees. The
11 board of trustees, in keeping with their responsibilities as trustees and
12 wherever consistent with their fiduciary responsibilities, shall give priority to
13 the investment of funds in obligations calculated to improve the industrial
14 development and enhance the economic welfare of the Commonwealth.
15 Toward this end, the board shall develop procedures for informing the
16 business community of the potential for in-state investments by the retirement
17 fund, accepting and evaluating applications for the in-state investment of
18 funds, and working with members of the business community in executing in-
19 state investments which are consistent with the board's fiduciary
20 responsibilities. The board shall include in the criteria it uses to evaluate in-
21 state investments their potential for creating new employment opportunities
22 and adding to the total job pool in Kentucky. The board may cooperate with
23 the board of trustees of Kentucky Retirement Systems in developing its
24 program and procedures, and shall report to the Legislative Research
25 Commission annually on its progress in placing in-state investments. The first
26 report shall be submitted by October 1, 1991, and subsequent reports shall be
27 submitted by October 1 of each year thereafter. The report shall include the

1 number of applications for in-state investment received, the nature of the
2 investments proposed, the amount requested, the amount invested, and the
3 percentage of applications which resulted in investments.

4 (2) (a) For the purposes of this subsection:

5 1. "Solely in the interest of the members and beneficiaries" shall be
6 determined using only pecuniary factors and shall not include any
7 purpose to further a nonpecuniary interest;

8 2. "Pecuniary factor" means a consideration having a direct and material
9 connection to the financial risk or financial return of an investment;

10 3. A "material connection" is established if there is a substantial likelihood
11 that a reasonable investor would consider it important in determining the
12 financial risk or the financial return of an investment;

13 4. "Nonpecuniary interest" includes but is not limited to an environmental,
14 social, political, or ideological interest which does not have a direct and
15 material connection to the financial risk or financial return of an
16 investment; and

17 5. "Investment manager" and "investment consultant" shall have the same
18 definition attributed to "investment adviser" under the federal
19 Investment Advisers Act of 1940, 15 U.S.C. sec. 80b-2.

20 (b) The board members, investment managers, investment consultants, or other
21 fiduciaries, and proxy advisers shall discharge their duties with respect to the
22 assets of the system solely in the interests of the active contributing members
23 and annuitants and:

24 1. For the exclusive purpose of providing benefits to members and
25 annuitants and defraying reasonable expenses of administering the
26 system;

27 2. With the care, skill, prudence, and diligence under the circumstances

1 then prevailing that a prudent person acting in a like capacity and
2 familiar with these matters would use in the conduct of an enterprise of
3 a like character and with like aims;

4 3. By diversifying the investments of the plan so as to minimize the risk of
5 large losses, unless under the circumstances it is clearly prudent not to
6 do so; and

7 4. In accordance with the federal, state, and common laws, administrative
8 regulations, and other instruments governing the system and fiduciaries.

9 (c) Evidence that a fiduciary has considered or acted on a nonpecuniary interest
10 shall include but is not limited to:

11 1. Statements, explanations, reports, or correspondence;

12 2. Communications with portfolio companies;

13 3. Statements of principles or policies, whether made individually or
14 jointly;

15 4. Votes of shares or proxies; or

16 5. Coalitions, initiatives, agreements, or commitments to which the
17 fiduciary is a participant, affiliate, or signatory.

18 (3) (a) In choosing and contracting for professional investment management and
19 consulting services, the board shall do so prudently and in the interest of the
20 members and annuitants. Any contract that the board makes with an
21 investment manager shall set forth policies and guidelines of the board with
22 reference to standard rating services and specific criteria for determining the
23 quality of investments. Expenses directly related to investment management
24 and consulting services shall be financed from the guarantee fund in amounts
25 approved by the board.

26 (b) An investment manager or consultant appointed under this section shall
27 acknowledge in writing his or her fiduciary responsibilities to the fund. To be

1 eligible for appointment, an investment manager, consultant, or an affiliate,
2 shall be:

- 3 1. Registered under the Federal Investment Advisers Act of 1940; or
- 4 2. A bank as defined by that Act; or
- 5 3. An insurance company qualified to perform investment services under
6 the laws of more than one (1) state.

7 (c) Proxy advisers and proxy voting services shall comply with all applicable
8 provisions of the Investment Advisers Act of 1940, as amended, and the rules
9 and regulations promulgated thereunder, and shall comply with all other
10 federal statutes and related rules and regulations that apply to proxy advisers
11 and proxy voting services.

12 (d) No contract or agreement, whether made in writing or not, shall in any
13 manner waive, restrict, or limit a fiduciary's liability as to any of the duties
14 imposed by this section. Any agreement shall specify that it is made in the
15 Commonwealth and governed by the laws of the Commonwealth.

16 (4) No investment or disbursement of funds shall be made unless authorized by the
17 board of trustees, except that the board, in order to ensure timely market
18 transactions, shall establish investment guidelines and may permit its staff and
19 investment managers who are employed or under contract with the board pursuant
20 to this section to execute purchases and sales of investment instruments within
21 those guidelines without prior board approval.

22 (5) In discharging his or her administrative duties under this section, a trustee shall
23 strive to administer the retirement system in an efficient and cost-effective manner
24 for the taxpayers of the Commonwealth of Kentucky.

25 (6) Notwithstanding any other provision of KRS 161.220 to 161.716, no funds of the
26 Teachers' Retirement System, including fees and commissions paid to an
27 investment manager, private fund, or company issuing securities, who manages

1 systems assets, shall be used to pay fees and commissions to placement agents. For
2 purposes of this subsection, "placement agent" means a third-party individual, who
3 is not an employee, or firm, wholly or partially owned by the entity being hired,
4 who solicits investments on behalf of an investment manager, private fund, or
5 company issuing securities.

6 (7) All contracts for the investment or management of assets of the system shall not be
7 subject to KRS Chapters 45, 45A, 56, and 57. Instead, the board shall conduct the
8 following process to develop and adopt an investment procurement policy with
9 which all prospective contracts for the investment or management of assets of the
10 system shall comply:

11 (a) On or before July 1, 2017, the board shall consult with the secretary of the
12 Finance and Administration Cabinet or his or her designee to develop an
13 investment procurement policy, which shall be written to meet best practices
14 in investment management procurement;

15 (b) Thirty (30) days prior to adoption, the board shall tender the preliminary
16 investment procurement policy to the secretary of the Finance and
17 Administration Cabinet or his or her designee for review and comment;

18 (c) Upon receipt of comments from the secretary of the Finance and
19 Administration Cabinet or his or her designee, the board shall choose to adopt
20 or not adopt any recommended changes;

21 (d) Upon adoption, the board shall tender the final investment procurement policy
22 to the secretary of the Finance and Administration Cabinet or his or her
23 designee;

24 (e) No later than thirty (30) days after receipt of the investment procurement
25 policy, the secretary or his or her designee shall certify whether the board's
26 investment procurement policy meets or does not meet best practices for
27 investment management procurement; and

- 1 (f) Any amendments to the investment procurement policy shall adhere to the
2 requirements set forth by paragraphs (b) to (e) of this subsection.
- 3 (8) (a) The board shall adopt written proxy voting guidelines which are consistent
4 with the fiduciary duties and other requirements of this section.
- 5 (b) The board shall not adopt the recommendations of a proxy adviser or proxy
6 voting service and shall not allow such proxy adviser or proxy voting service
7 to vote on behalf of the system, unless the proxy adviser or proxy voting
8 service acknowledges in writing and accepts under contract its duties under
9 this section and commits to follow the board-adopted proxy voting guidelines
10 when voting the system's shares in order to comply with the board's fiduciary
11 duties and other responsibilities under this section.
- 12 (c) All shares held by or on behalf of the system, and which the system is entitled
13 to vote under state, federal, or common laws, shall be voted according to the
14 proxy voting guidelines adopted by the board and subject to the fiduciary
15 duties and other requirements of this section by:
- 16 1. The board, the investment committee of the board, or an employee or
17 employees of the system who are fiduciaries under this section and are
18 appointed or otherwise authorized by the board; or
- 19 2. A proxy adviser or proxy voting service that acknowledges in writing
20 and accepts under contract its duties under this section and commits to
21 follow the board-adopted proxy voting guidelines when voting the
22 system's shares in order to comply with the board's fiduciary duties and
23 other responsibilities under this section.
- 24 (d) All proxy votes shall be reported at least quarterly to the board. For each vote,
25 the report shall provide:
- 26 1. The vote caption;
27 2. The date of the vote;

- 1 3. The company's name;
- 2 4. The vote cast for the system;
- 3 5. The recommendation of the company's management; and
- 4 6. If applicable, the recommendation of the proxy adviser or proxy voting
- 5 service.
- 6 ➔Section 14. This Act may be cited as the Inflation Protection Act of 2025.