

The Commonwealth of Massachusetts

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MESSAGE FROM HIS EXCELLENCY THE GOVERNOR  
RETURNING WITH HIS OBJECTIONS THERETO IN  
WRITING, UNDER THE PROVISIONS OF ARTI-  
CLE II OF SECTION I of CHAPTER I OF PART  
THE SECOND OF THE CONSTITUTION, THE  
ENGROSSED BILL ENDING THE INVEST-  
MENT OF PUBLIC PENSION FUNDS IN  
FIRMS DOING BUSINESS IN OR  
WITH SOUTH AFRICA  
(see Senate, No. 984)

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December 29, 1982

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## The Commonwealth of Massachusetts

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### EXECUTIVE DEPARTMENT

STATEHOUSE • BOSTON 02133

December 29, 1982

*To the Honorable Senate and House of Representatives:*

I am returning, herewith, without my approval, Senate Bill No. 984 entitled "AN ACT ENDING THE INVESTMENT OF PUBLIC PENSION FUNDS IN FIRMS DOING BUSINESS IN OR WITH SOUTH AFRICA".

On December 15, 1982, I returned this legislation to your Honorable Bodies with certain recommended amendments (see Senate No. 2156 for the text of that message). The same fundamental values and principles continue to be of concern. The same fiduciary responsibilities of those responsible for the public pension system must be acknowledged and respected.

Proponents of this legislation have made an important new argument that bond swaps would enable the pension fund to divest itself of South Africa-related securities while actually improving the valuation of its portfolio.

In December 1975, the office of Insurance Commissioner James Stone reviewed the use of bond swaps by the investment managers of the state pension funds. Their letter, establishing the parameters for such swaps, is attached. The described conditions have remained in full force and effect.

Insofar as bond swaps could be arranged within the parameters established by Commissioner Stone's office, they would have been required under the amendments which I recommended on December 15 which required divestiture where that could be accomplished without a loss to the pension system.

The Commonwealth cannot ignore its fiduciary responsibility in managing the funds of its pensioners. We can and do have a commitment to divest these funds of investment in South Africa related securities.

To that end the Commonwealth has been prohibited since 1979 from new investments in such securities.

In the past two months, the funds have been divested of 553,800 shares of the 2,035,000 shares of bank stock on the South African list.

In continuation of that commitment, I have directed the Commissioner of Insurance to review its December 1975 ruling regarding bond swaps to further facilitate that divestiture.

On a voluntary basis, I am confident that the Commonwealth is committed to a steady course that will result in complete divestiture.

To accomplish that same end under statutory mandate, however, is certain to be complicated by the depressing of the market for currently held securities upon enactment of a mandatory divestiture bill. That depression of market values will have a negative impact on the value of the Commonwealth's portfolio, an action which is contrary to our fiduciary responsibility.

In light of that responsibility, and with regret that the bill could not be enacted in the form I recommended, I cannot sign Senate Bill No. 984 into law.

Respectfully submitted,

Edward J. King  
*Governor*

The Commonwealth of Massachusetts

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DEPARTMENT OF BANKING AND INSURANCE  
DIVISION OF INSURANCE

Leverett Saltonstall Building, Government Center  
100 Cambridge Street, Boston 02202

December 8, 1975

Mr. James Callanan  
State Employees Retirement System  
McCormack Building  
Boston, Massachusetts

Dear Mr. Callanan:

The Division of Insurance will allow the State Employees Retirement System and the State Teachers Retirement System to amortize losses on bond sales as requested by your Investment Committee provided that the following conditions as suggested by the Investment Advisory Committee of the Retirement Law Commission are met:

- 1) That this approval shall be only for the calendar years 1975 and 1976 with review at the end of each fiscal quarter by the Retirement Law Commission to evaluate all transactions, activity, mechanics and procedures. The results of such review shall be furnished to the Commissioner of Insurance in writing within 15 days after the close of each quarter and shall include a summary of trades during such quarter.
- 2) That when each bond is sold, the amount of any gain or loss (based on the difference between the proceeds realized and the book or amortized cost) be allocated to a Principal Adjustment Account. A portion of total net losses in this account would be amortized each year and charged against income. Gains from the sale of securities would be used to offset principal losses. Total losses in the Principal Adjustment Account may not exceed 10% of the book value of total fund assets at the beginning of any year. Any losses above this limit would

be charged directly against general funds as is the procedure at present.

- 3) That straight line amortization be used and that the period of amortization be ten years or less.
- 4) That each and every transaction involving a trade should be accompanied by a trade substantiation sheet, whose form shall be approved by the Commissioner. These trade substantiation sheets must be prepared in advance of the trade and signed and dated by each member of the Investment Committee.
- 5) That this authority may be revoked by the Commissioner of Insurance at any time and shall expire automatically if any of the above conditions are not met. This approval shall terminate no later than December 31, 1976 unless renewed by the Commissioner in writing.

Very truly yours,

Keith R. Rodney

*Deputy Commissioner of Insurance*

KRR:Ias

February 11, 1976

Keith R. Rodney  
Deputy Commissioner of Insurance  
Department of Banking and Insurance

Leverett Saltonstall Building  
100 Cambridge Street  
Boston, Massachusetts 02202

Dear Mr. Rodney:

Pursuant to the conversation we had with you Tuesday morning, February 3, to arrange a formal procedure for ratification of bond sales or swaps by the Investment Committee for the State Employees' and Teachers' Retirement Systems, we perceived a problem with item four (4) of your instructions dated December 8, 1975 which states in part, "These trade substantiation sheets must be prepared in advance of the trade and signed and dated by each member of the Investment Committee".

We feel that to have the members sign these sheets in advance would be impracticable and, in many cases, impossible. Therefore, at your suggestion, we have prepared an alternative draft which we discussed and now submit for your approval.

That the Secretary to the Investment Committee or his assistant, Mr. Philip Kett, of the State Treasurer's Office be allowed to sign the substantiation sheets. He will contact the members of the Committee or their designee and obtain authorization from at least two to consummate the transaction. He will sign, date, and state each member or designee consulted.

Very truly yours,  
Donal P. Frary  
*Deputy State Treasurer and  
Secretary of the Investment Committee*

DPF/vh

APPROVED:



