

AN ACT

relating to corporate ethics and integrity.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Subchapter B, Chapter 402, Government Code, is amended by adding Section 402.0231 to read as follows:

Sec. 402.0231. CORPORATE INTEGRITY UNIT. (a) In this section, "corporate fraud" means a violation of state or federal law or rules relating to fraud committed by a corporation, limited liability company, or registered limited liability partnership or an officer, director, or partner of those entities while acting in a representative capacity.

(b) A corporate integrity unit is created within the office of the attorney general to assist in the enforcement of the laws relating to corporate fraud or other similar illegal activities.

The unit shall:

(1) assist district attorneys and county attorneys in the investigation and prosecution of corporate fraud or other similar illegal activities allegedly committed by corporations, limited liability companies, and registered limited liability partnerships;

(2) assist state agencies with investigation of complaints and administrative enforcement actions for corporate fraud violations, including the assessment of an administrative penalty or other administrative sanction; and

1 (3) serve as a clearinghouse for information relating
2 to the investigation and prosecution of corporate fraud and other
3 similar illegal activities in this state.

4 (c) To the extent allowed by law, a state agency or local law
5 enforcement agency shall cooperate with the corporate integrity
6 unit by providing information requested by the unit as necessary to
7 carry out the purposes of this section. Information disclosed
8 under this subsection is confidential and not subject to disclosure
9 under Chapter 552.

10 SECTION 2. Subtitle F, Title 10, Government Code, is
11 amended by adding Chapter 2263 to read as follows:

12 CHAPTER 2263. ETHICS AND DISCLOSURE REQUIREMENTS FOR OUTSIDE
13 FINANCIAL ADVISORS AND SERVICE PROVIDERS

14 Sec. 2263.001. APPLICABILITY. (a) This chapter applies in
15 connection with the management or investment of any state funds
16 managed or invested:

17 (1) under the Texas Constitution or other law,
18 including Chapters 404 and 2256; and

19 (2) by or for:

20 (A) a public retirement system as defined by
21 Section 802.001 that provides service retirement, disability
22 retirement, or death benefits for officers or employees of the
23 state;

24 (B) an institution of higher education as defined
25 by Section 61.003, Education Code; or

26 (C) another entity that is part of state
27 government and that manages or invests state funds or for which

1 state funds are managed or invested.

2 (b) This chapter applies in connection with the management
3 or investment of state funds without regard to whether the funds are
4 held in the state treasury.

5 (c) This chapter does not apply to or in connection with a
6 state governmental entity that does not manage or invest state
7 funds and for which state funds are managed or invested only by the
8 comptroller.

9 Sec. 2263.002. DEFINITION. In this chapter, "financial
10 advisor or service provider" includes a person or business entity
11 who acts as a financial advisor, financial consultant, money or
12 investment manager, or broker.

13 Sec. 2263.003. CONSTRUCTION WITH OTHER LAW. To the extent
14 of a conflict between this chapter and another law, the law that
15 imposes a stricter ethics or disclosure requirement controls.

16 Sec. 2263.004. ETHICS REQUIREMENTS FOR OUTSIDE FINANCIAL
17 ADVISORS OR SERVICE PROVIDERS. (a) The governing body of a state
18 governmental entity by rule shall adopt standards of conduct
19 applicable to financial advisors or service providers who are not
20 employees of the state governmental entity, who provide financial
21 services to the state governmental entity or advise the state
22 governmental entity or a member of the governing body of the state
23 governmental entity in connection with the management or investment
24 of state funds, and who:

25 (1) may reasonably be expected to receive, directly or
26 indirectly, more than \$10,000 in compensation from the entity
27 during a fiscal year; or

1 (2) render important investment or funds management
2 advice to the entity or a member of the governing body of the
3 entity, as determined by the governing body.

4 (b) A contract under which a financial advisor or service
5 provider renders financial services or advice to a state
6 governmental entity or other person as described by Subsection (a)
7 is voidable by the state governmental entity if the financial
8 advisor or service provider violates a standard of conduct adopted
9 under this section.

10 Sec. 2263.005. DISCLOSURE REQUIREMENTS FOR OUTSIDE
11 FINANCIAL ADVISOR OR SERVICE PROVIDER. (a) A financial advisor or
12 service provider described by Section 2263.004 shall disclose in
13 writing to the administrative head of the applicable state
14 governmental entity and to the state auditor:

15 (1) any relationship the financial advisor or service
16 provider has with any party to a transaction with the state
17 governmental entity, other than a relationship necessary to the
18 investment or funds management services that the financial advisor
19 or service provider performs for the state governmental entity, if
20 a reasonable person could expect the relationship to diminish the
21 financial advisor's or service provider's independence of judgment
22 in the performance of the person's responsibilities to the state
23 governmental entity; and

24 (2) all direct or indirect pecuniary interests the
25 financial advisor or service provider has in any party to a
26 transaction with the state governmental entity, if the transaction
27 is connected with any financial advice or service the financial

1 advisor or service provider provides to the state governmental
2 entity or to a member of the governing body in connection with the
3 management or investment of state funds.

4 (b) The financial advisor or service provider shall
5 disclose a relationship described by Subsection (a) without regard
6 to whether the relationship is a direct, indirect, personal,
7 private, commercial, or business relationship.

8 (c) A financial advisor or service provider described by
9 Section 2263.004 shall file annually a statement with the
10 administrative head of the applicable state governmental entity and
11 with the state auditor. The statement must disclose each
12 relationship and pecuniary interest described by Subsection (a) or,
13 if no relationship or pecuniary interest described by that
14 subsection existed during the disclosure period, the statement must
15 affirmatively state that fact.

16 (d) The annual statement must be filed not later than April
17 15 on a form prescribed by the governmental entity, other than the
18 state auditor, receiving the form. The statement must cover the
19 reporting period of the previous calendar year. The state auditor
20 shall develop and recommend a uniform form that other governmental
21 entities receiving the form may prescribe.

22 (e) The financial advisor or service provider shall
23 promptly file a new or amended statement with the administrative
24 head of the applicable state governmental entity and with the state
25 auditor whenever there is new information to report under
26 Subsection (a).

27 Sec. 2263.006. PUBLIC INFORMATION. Chapter 552 controls

1 the extent to which information contained in a statement filed
2 under this chapter is subject to required public disclosure or
3 excepted from required public disclosure.

4 SECTION 3. The office of the attorney general is not
5 required to implement Section 402.0231, Government Code, as added
6 by this Act, unless a specific appropriation for the implementation
7 is provided in the General Appropriations Act, Acts of the 78th
8 Legislature, Regular Session, 2003.

9 SECTION 4. Each state governmental entity required to adopt
10 rules under Chapter 2263, Government Code, as added by this Act,
11 shall adopt its initial rules in time for the rules to take effect
12 not later than January 1, 2004.

13 SECTION 5. This Act takes effect September 1, 2003.

President of the Senate

Speaker of the House

I hereby certify that S.B. No. 1059 passed the Senate on April 10, 2003, by a viva-voce vote; May 29, 2003, Senate refused to concur in House amendment and requested appointment of Conference Committee; May 30, 2003, House granted request of the Senate; June 1, 2003, Senate adopted Conference Committee Report by a viva-voce vote.

Secretary of the Senate

I hereby certify that S.B. No. 1059 passed the House, with amendment, on May 25, 2003, by a non-record vote; May 30, 2003, House granted request of the Senate for appointment of Conference Committee; June 1, 2003, House adopted Conference Committee Report by a non-record vote.

Chief Clerk of the House

Approved:

Date

Governor