JOHN CHIANG
California State Controller

February 3, 2011

Mr. Rob Feckner
Chair, Board of Administration
California State Public Employees' Retirement System
400 Q Street, Room 3340
Lincoln Plaza North
Sacramento, CA 95814

RE: 2011 Legislation Related to Findings from the Special Review

Dear Mr. Feckner:

I am writing to inform you of two legislative measures I am sponsoring, which I hope you and our fellow Board members will support. Like you, I am very concerned about the public's current perception of how we do business at CalPERS. Both of these measures are designed to restore public confidence in CalPERS and the Board's decision-making process. The first measure addresses the annual gift allowance under the Political Reform Act (PRA). It would lower, from $420 to $50, the amount of allowable gifts made to CalPERS board members and staff from entities with business before CalPERS. The second measure would place stronger "revolving-door" restrictions on CalPERS board members and employees, reducing the likelihood that investment decisions would be influenced by potential job offers and former insiders. These two measures are crucial to restoring the public's trust in the retirement system.

The gift limit proposal is a response to influence-peddling practices revealed when the placement agent scandal broke in the spring of 2009. Recently, the Steptoe and Johnson "Special Review" recommended a ban on gift-giving as one of the key reforms needed to protect the state's investments from undue influence. Under my proposal, unless otherwise prohibited by CalPERS policy, board members and employees could accept gifts from entities with business before CalPERS up to the current PRA reportable threshold of $50. Other PRA regulations on gifts would continue to apply.

The second proposal I am sponsoring will prohibit CalPERS board members and employees from accepting a job with any employer who has had substantial contracts or investments (defined as above $10 million) with CalPERS immediately after separation. CalPERS employees who worked with placement agents in the 10 years prior to their separation would be prohibited from accepting employment with any placement agent immediately after

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separation. The "revolving-door" protection would not prevent former employees from working for employers whose principal market is unrelated to the individual's prior service.

As these bills, which also apply to CalSTRS, begin their journey through the legislative process, I welcome your thoughts on how to improve them. These measures were developed with the principal goal of protecting CalPERS investments from unsound influence and restoring the system's credibility in the public eye. Thank you for your attention to these important measures and I look forward to working with you and the Board to address any concerns you may have.

Sincerely,

JOHN CHIANG
California State Controller

cc: CalPERS Board Members
Anne Stausboll, Chief Executive Officer, CalPERS