



## Agenda Item 8

August 15, 2012

**ITEM NAME:** Personal Trading Regulation

**PROGRAM:** Office of Enterprise Risk Management

**ITEM TYPE:** Action

### **RECOMMENDATION**

Approve recommendation to adopt Title 2, Section 558.1 of the California Code of Regulations, Personal Trading Regulations and to authorize submission of the Notice of Regulatory Action to the Office of Administrative Law.

### **EXECUTIVE SUMMARY**

During the June 13, 2012 Public Hearing and CalPERS Board of Administration meeting, it was determined that Board members would have an opportunity to approve the final version of the proposed regulation prior to submission to the Office of Administrative Law (OAL).

Although additional public comments were received from one source, there were no resulting changes to the regulation. Staff is now seeking final Board approval of the proposed regulations on Personal Trading and to submit the Rulemaking documents to the Office of Administrative Law.

### **BACKGROUND**

At the June 13, 2012 CalPERS Board of Administration meeting a public hearing was held to allow interested parties an opportunity to comment on the proposed Personal Trading Regulations. Although there were no public comments during this meeting, an interested party requested additional time to submit written public comments. An additional fifteen (15) day public comment period (June 21, 2012 to July 5, 2012) was initiated.

One member of the public made two comments in an e-mail submitted to CalPERS on July 5, 2012. The public comments received on July 5, 2012 did not result in changes to the proposed regulation.

### **ANALYSIS**

Federal securities laws prohibit the engagement of insider trading, front running and other illegal trading practices. The proposed Personal Trading Regulations will put CalPERS in accordance with industry best practices and industry standards.

At the June 15, 2012 Board of Administration meeting, the Board approved the proposed Personal Trading Regulations and authorized staff to file a Notice of Proposed Regulatory Action with the Office of Administrative Law. An additional fifteen (15) day public comment period was required. CalPERS notified over 2,300 interested parties of the Notice of Proposed Personal Trading Regulations. The additional public comment period began June 21, 2012 and concluded on July 5, 2012.

On July 5, 2012, the CalPERS Regulations Coordinator received an e-mail from a member of the public with two comments on the proposed Regulations. Staff reviewed the comments and determined that no changes to the proposed Personal Trading Regulation were necessary. A Summary of Public Comments and Responses to Those Comments is included as Attachment A of this agenda item. The actual public comments and CalPERS response is provided as Attachment B for Board review. After review and consideration of the public comments, it was determined that no changes were necessary to the proposed Personal Trading Regulations from these public comments.

The proposed Personal Trading Regulations have not changed since reviewed and approved by the Board of Administration during the June 13, 2012 meeting. The Notice of Proposed Regulations, Title 2, Section 558.1 of the California Code of Regulations, Personal Trading Regulations is included as Attachment C.

Upon Board approval of the proposed Personal Trading Regulations, staff will submit the final Rulemaking documents to Office of Administrative Law who has up to thirty (30) days to review. The Regulations are then filed with the Secretary of State for publishing. This may take an additional thirty (30) days.

#### **BENEFITS/RISKS**

Implementing the proposed Personal Trading Regulations will protect CalPERS and staff from potentially entering into trades that could be perceived as front running or trading on insider information. Implementing the proposed regulations will also serve to protect the CalPERS reputation and align insider trading and front running practice with industry standards. Prolonging the regulatory process may delay the effective date of the regulation.

#### **ATTACHMENTS**

Attachment A- Summary of Public Comments and Responses to Those Comments  
Attachment B- Actual Public Comments and CalPERS Response  
Attachment C- Notice of Proposed Personal Trading Regulations

---

LARRY JENSEN, Risk Officer  
Enterprise Risk Management Division

---

KATHLEEN K. WEBB  
Chief Officer of Risk, Compliance, and Ethics

---

RUSSELL G. FONG  
Acting Chief Financial Officer