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[Home](#) [Legislation & Laws](#) [Senate](#) [House](#) [My Legislation](#) [Site Map](#)

Bills & Resolutions

- [Compiled Statutes](#)
- [Public Acts](#)
- [Legislative Reports](#)
- [IL Constitution](#)
- [Legislative Guide](#)
- [Legislative Glossary](#)

Full Text of HB6292

[Introduced](#) [Engrossed](#)
[House Amendment 001](#) [House Amendment 002](#) [Senate Amendment 001](#)
[Printer-Friendly Version](#) [PDF](#) [Bill Status](#)

Sen. Daniel Biss

Filed: 5/3/2016

Search By Number (example: HB0001)

[Search Tips](#)

Search By Keyword

[Search Tips](#)

[Advanced Search](#)



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	09900HB6292sam001	LRB099 19829 EFG 47770 a
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1	AMENDMENT TO HOUSE BILL 6292
2	AMENDMENT NO. _____. Amend House Bill 6292 by replacing
3	everything after the enacting clause with the following:
4	"Section 5. The Illinois Pension Code is amended by adding
5	Sections 1-113.17, 1-113.17a, and 1-113.17b as follows:
6	(40 ILCS 5/1-113.17 new)
7	<u>Sec. 1-113.17. Investment transparency; definitions. As</u>
8	<u>used in this Section and Sections 1-113.17a and 1-113.17b:</u>
9	<u>(a) "Affiliate" means any person directly or indirectly</u>
10	<u>controlling or controlled by, or under direct or indirect</u>
11	<u>common control with, another person.</u>
12	<u>(a-5) "Alternative investment fund" means a private equity</u>
13	<u>fund, hedge fund, absolute return fund, total return fund, or</u>
14	<u>any investment pool that is privately organized, actively</u>
15	<u>managed by investment professionals, and pays performance or</u>

10	<u>incentive fees to investment managers.</u>		
	09900HB6292sam001	- 2 -	LRB099 19829 EFG 47770 a

1	<u>(b) "Board" or "public retirement system board" means the</u>
2	<u>board of trustees of a public retirement system and includes</u>
3	<u>the Illinois State Board of Investment established under</u>
4	<u>Article 22A of this Code.</u>
5	<u>(c) "External manager" means either of the following:</u>
6	<u>(1) A person who manages an alternative investment fund</u>
7	<u>and who offers or sells, or has offered or sold, an</u>
8	<u>ownership interest in the alternative investment fund to a</u>
9	<u>board.</u>
10	<u>(2) A general partner, managing member entity, fund</u>
11	<u>manager, fund adviser, or other similar person or entity</u>
12	<u>with decision-making authority over an alternative</u>
13	<u>investment fund.</u>
14	<u>(d) "External manager group" means (1) the external</u>
15	<u>manager, (2) its affiliates, (3) any other parties described in</u>
16	<u>the external manager's marketing materials for the relevant</u>
17	<u>alternative investment fund as providing services to or on</u>
18	<u>behalf of portfolio holdings, and (4) any other parties</u>
19	<u>described in the external manager's affiliated adviser's SEC</u>
20	<u>Form ADV filing as receiving portfolio holding fees or</u>
21	<u>portfolio holding other compensation. "External manager group"</u>
22	<u>does not include the affiliated alternative investment fund in</u>
23	<u>which the public retirement system is an investor, nor does it</u>
24	<u>include an alternative investment fund used to effectuate</u>
25	<u>investments of the affiliated fund in which the public</u>
26	<u>retirement system is an investor.</u>

	09900HB6292sam001	- 3 -	LRB099 19829 EFG 47770 a
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1	<u>(e) "Marketing materials" means (1) a prospectus, (2) a</u>
2	<u>private placement memorandum. (3) a prospective investor</u>

3 presentation, (4) a due diligence questionnaire, but only if
 4 the questions are authored by an external manager, or (5) any
 5 other written material provided by an external manager for the
 6 purpose of soliciting a commitment to an alternative investment
 7 fund.

8 (f) "New agreement" means an agreement that is proposed or
 9 executed after January 1, 2017, and includes any modification
 10 to or amendment of such an agreement that modifies or alters
 11 any of the provisions required to be disclosed under Section
 12 1-113.17a or 1-113.17b. "New agreement" also means any
 13 subsequent agreement that implements, memorializes, or
 14 provides detail about such an agreement.

15 (g) "Person" means an individual, corporation,
 16 partnership, limited partnership, limited liability company,
 17 or association, either domestic or foreign.

18 (h) "Portfolio holding" means any business, partnership,
 19 real property, or other business entity or asset in which an
 20 alternative investment fund has, at any time, held either an
 21 interest in the securities thereof or a real property interest
 22 in, or has acted as a lender to, the entity or asset.

23 (i) "Portfolio holding fee" means the total payment
 24 obligation of a portfolio holding, regardless of whether it is
 25 actually paid or accrued, and regardless of whether the payment
 26 obligation is satisfied in cash, securities, or other

09900HB6292sam001	- 4 -	LRB099 19829 EFG 47770 a
-------------------	-------	--------------------------

1 consideration, and regardless of whether it is incurred as
 2 compensation for services provided or as reimbursement for
 3 expenses incurred.

4 (j) "Private equity fund" means a pooled investment entity
 5 that is, or holds itself out as being, engaged primarily, or
 6 proposes to engage primarily, in investment strategies
 7 involving equity or debt financings that are provided for
 8 purchasing or expanding private or public companies, or for
 9 related purposes such as financing for capital, research and

10 development, introduction of a product or process into the
 11 marketplace, or similar needs requiring risk capital. This
 12 includes, but is not limited to, financing classified as
 13 venture capital, mezzanine, buyout, or growth funds.
 14 (k) "Public retirement system" means a pension fund or
 15 retirement system subject to this Code and includes the
 16 Illinois State Board of Investment established under Article
 17 22A of this Code.
 18 (40 ILCS 5/1-113.17a new)
 19 Sec. 1-113.17a. Investment transparency; disclosure of
 20 alternative investment fund agreements.
 21 (a) The definitions in Section 1-113.17 of this Code apply
 22 to this Section.
 23 (b) Within 90 days after entering into an agreement to
 24 invest in an alternative investment fund, a public retirement
 25 system must disclose, in the manner provided under this

09900HB6292sam001	- 5 -	LRB099 19829 EFG 47770 a
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1 Section, the existence of the agreement and all of the
 2 following parts and provisions of the agreement:
 3 (1) All management fee waiver provisions, including,
 4 but not limited to, provisions that permit the external
 5 manager or general partner to waive fees, or that specify
 6 the mechanics of the fee waiver or its repayment, or that
 7 specify the magnitude of the fee waiver, or that are
 8 necessary to understand how the fee waiver works, and all
 9 defined terms related to or affecting the fee waiver.
 10 (2) All indemnification provisions, including, but not
 11 limited to, provisions that require the alternative
 12 investment fund or its investors to indemnify the external
 13 manager or general partner, or any of its affiliates, for
 14 settlements or judgments paid, and including all
 15 provisions necessary to understand how the indemnification
 16 works and all defined terms related to or affecting

17	<u>indemnification.</u>		
18	<u>(3) All clawback provisions, including, but not</u>		
19	<u>limited to, provisions that allow the external manager or</u>		
20	<u>general partner to pay back an amount less than the full</u>		
21	<u>cost of the overpayment received by the manager, and</u>		
22	<u>including all provisions necessary to understand how the</u>		
23	<u>clawback works and all defined terms related to or</u>		
24	<u>affecting clawbacks.</u>		
25	<u>(4) The cover page and signature block of the</u>		
26	<u>agreement.</u>		
	09900HB6292sam001	- 6 -	LRB099 19829 EFG 47770 a

1	<u>However, in the case of a new agreement that consists of a</u>		
2	<u>modification of or amendment to a previous new agreement for</u>		
3	<u>which the disclosures required under this subsection have</u>		
4	<u>already been made, it is sufficient for the public retirement</u>		
5	<u>system (i) to identify the previous disclosures and disclose</u>		
6	<u>only the parts and provisions of the modification of or</u>		
7	<u>amendment to the agreement that modify, alter, or affect any of</u>		
8	<u>the provisions previously disclosed under this subsection or</u>		
9	<u>(ii) to make and disclose a finding that the modification or</u>		
10	<u>amendment does not modify, alter, or affect any of the</u>		
11	<u>provisions previously disclosed under this subsection,</u>		
12	<u>whichever is applicable.</u>		
13	<u>(c) The public retirement system shall make the disclosures</u>		
14	<u>required under subsection (b) by doing all of the following:</u>		
15	<u>(1) filing a copy of the required material with the</u>		
16	<u>Public Pension Division of the Illinois Department of</u>		
17	<u>Insurance;</u>		
18	<u>(2) filing a copy of the required material with the</u>		
19	<u>Illinois Secretary of State; and</u>		
20	<u>(3) posting and maintaining the required material on</u>		
21	<u>the public retirement system's website.</u>		
22	<u>(d) A new agreement shall not be deemed to be violated or</u>		
23			

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 24 make invalid by the public retirement system's good faith
 25 effort to make the disclosures required under subsection (b) of
 26 this Section, nor due to harmless or inadvertent failure by the
public retirement system to correctly include or identify a

09900HB6292sam001	- 7 -	LRB099 19829 EFG 47770 a
-------------------	-------	--------------------------

1 component of a required disclosure.
 2 (e) The following are public records and are subject to
 3 disclosure under the Freedom of Information Act:
 4 (1) All of the material required to be disclosed under
 5 subsection (b) of this Section.
 6 (2) Any amounts paid in indemnification and any amounts
 7 deducted from payments owed by the general partner or
 8 external manager under an agreement establishing or
 9 providing for participation in an alternative investment
 10 fund by a public retirement system, and any documents
 11 submitted to a public retirement system justifying the
 12 demand for payment relating to the indemnification.
 13 (3) The cover page and a legible copy of the executed
 14 signature block of any new agreement to establish or
 15 participate in an alternative investment fund by a public
 16 retirement system.
 17 (40 ILCS 5/1-113.17b new)
 18 Sec. 1-113.17b. Investment transparency; disclosure of
 19 certain investment fees.
 20 (a) The definitions in Section 1-113.17 of this Code apply
 21 to this Section. For the purposes of this Section, "carried
 22 interest" means a share of the profits of an alternative
 23 investment fund that is paid, accrued, or due to the general
 24 partner or the external manager or their affiliates.
 25 (b) This Section applies to any new agreement that a public

09900HB6292sam001	- 8 -	LRB099 19829 EFG 47770 a
-------------------	-------	--------------------------

1 retirement system enters into in order to establish or
 2 participate in an alternative investment fund. A public
 3 retirement system shall not enter into such new agreement
 4 without a written undertaking by the alternative investment
 5 fund external managers and general partners that they will
 6 comply with this Section and the requirements of the public
 7 retirement system pursuant to subsection (c).
 8 (c) Every public retirement system shall require its
 9 alternative investment fund external managers and general
 10 partners to make the following disclosures annually, in a
 11 manner and form prescribed by the system, in regard to each
 12 alternative investment fund:
 13 (1) The fees and expenses that the public retirement
 14 system pays directly to the alternative investment fund, or
 15 to the alternative investment fund external manager or
 16 general partner.
 17 (2) The public retirement system's share of all fees
 18 and expenses not included in paragraph (1), including
 19 carried interest, that are paid or allocated from the
 20 alternative investment fund to the external manager or
 21 general partners, or that are deducted from payments owed
 22 from the external manager or general partners to the
 23 alternative investment fund.
 24 (3) The amount of all management fee waivers made by
 25 the alternative investment fund external managers or
 26 general partners.

09900HB6292sam001	- 9 -	LRB099 19829 EFG 47770 a
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1 (4) The total amount of portfolio holding fees incurred
 2 by each portfolio holding of the alternative investment
 3 fund as payment to any person who is a member of the
 4 external manager group.
 5 (d) A public retirement system shall make the information
 6 received under subsection (c) available by:

7	<u>(1) filing a copy of the received material with the</u>
8	<u>Public Pension Division of the Illinois Department of</u>
9	<u>Insurance; and</u>
10	<u>(2) posting and maintaining the received information</u>
11	<u>on the public retirement system's website, together with</u>
12	<u>sufficient identifying and explanatory material to</u>
13	<u>facilitate access and understanding by the public.</u>
14	Section 99. Effective date. This Act takes effect upon
15	becoming law.".

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