WASHINGTON STATE
INVESTMENT BOARD

STATE INVESTMENT BOARD
BOARD ADOPTED POLICIES

POLICY NUMBER: 2.00.100

EFFECTIVE DATE: 12/20/01

TITLE: Code of Conduct

SUPERSEDES: 10/18/01

BOARD ADOPTION: 12/20/01

APPROVED: James F. Parker

PURPOSE:

This policy provides a Code of Conduct for the State Investment Board (SIB) Board members and staff in conducting their activities to ensure the exclusion of any professional and personal conflicts, which may be detrimental to the SIB and plan beneficiaries.

While the Code of Conduct is intended to be applicable to employees and Board members when serving in their official SIB capacity, state officers and employees never lose their identity as state officers or employees. There are many provisions in the Code of Conduct, the ethics laws, and general state statutes governing public officers and state officials that are applicable at all times because of the position one holds. How provisions of the Code of Conduct apply is dependent on the specific situation and relevant facts.

POLICY:

The trusteeship and investment management of the retirement, deferred compensation, industrial insurance, permanent, and various other trust funds demand the highest degree of confidence from the beneficiaries of the funds and the public in general. It is, therefore, the obligation of every member and each employee of the Board to conduct himself or herself with utmost integrity, professionalism and ethical behavior. In addition, the state ethics law enacted in 1994 provides that:

> Government derives its powers from the people. Ethics in government are the foundation on which the structure of government rests. State officials and employees of government hold a public trust that obligates them, in a special way, to honesty and integrity in fulfilling the responsibilities to which they are elected and appointed. Paramount in that trust is the principle that public office, whether elected or appointed, may not be used for personal gain or private advantage.
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> The citizens of the state expect all state officials and employees to perform their public responsibilities in accordance with the highest ethical and moral standards and to conduct the business of the state only in a manner that advances the public's interest. State officials and employees are subject to the sanctions of law and scrutiny of the media; ultimately, however, they are accountable to the people and must consider this public accountability as a particular obligation of the public service. Only when affairs

of government are conducted, at all levels, with openness as provided by law and an unswerving commitment to the public good does government work as it should.

It is with these guiding principles that the Board has adopted this Code of Conduct. This Code reflects existing state laws regarding conflict of interest and code of ethics and is intended to supplement and clarify these standards as it applies to this agency. Existing state law includes:

1. RCW 42.52 - Ethics in Public Service. This chapter applies to all state officials, including state employees, both exempt and non-exempt staff members, and members of the Board, both voting and non-voting, including elected officials.

2. RCW 42.20 - Misconduct of Public Officers. This chapter applies to all public officers, which includes state employees. It sets forth certain activities which are prohibited and deemed as a misdemeanor or gross misdemeanor.

3. WAC 287-04 - Conflict of Interest. This is the Board's rules of conduct for all staff members, both exempt and non-exempt employees, and all Board members, both voting and non-voting and elected officials.

I. GIFTS

A. Purpose

RCW 42.52 RCW and WAC 287-04-031 prohibit an employee of the Board and Board members from accepting most gifts. The receipt of gifts could impair the integrity, independence or impartiality of the recipient, or create an appearance of obligation to the giver. The Board seeks to clarify the rule against the receipt of gifts and provide for the reporting of gifts which the person is lawfully allowed to receive.

B. Definitions

1. "Gift" means a thing of economic value given to the recipient without valuable consideration of equivalent value. "Gift" does not include:

   a. items from family members or friends where it is clear beyond a reasonable doubt that the gift was not made as part of any design to gain or maintain influence in the agency of which the recipient is an officer or employee;

   b. items related to the outside business of the recipient that are customary and not related to the recipient's performance of official duties;

   c. items exchanged among officials and employees or a social event hosted or sponsored by a state officer or state employee for coworkers;

d. payments by a governmental entity or a nongovernmental entity which does not provide nor seeks to provide goods or services to the Board of reasonable expenses incurred in connection with a speech, presentation, appearance, or trade mission made in an official capacity;

e. items a state officer or state employee is authorized by law to accept;

f. payment of enrollment or course fees and reasonable travel expenses attributable to attending seminars and educational programs sponsored by a bona fide nonprofit professional, educational, or trade association, or charitable institution as long as the payor does not provide nor seeks to provide goods or services to the Board;

g. items returned by the recipient to the donor within thirty days of receipt or donated to a charitable organization within thirty days of receipt;

h. campaign contributions reported under RCW 42.17;

i. discounts available to an individual as a member of an employee group, occupation, or similar broad-based group;

j. loans from banks and other financial institutions made on customary terms to finance the proper and usual activities of employees or Board members, such as the purchase of housing or motor vehicles. (Loans and other transactions on terms and conditions not generally available to the public are prohibited);

k. payment or waiver of registration fees, or the furnishing of materials, or meals and associated beverages by event sponsors, for Board members or employees attending group training sessions, advisory committee or partnership meetings, or conferences, in return for fees paid by the Board under a limited partnership or other investment agreement, personal service contract, or other agreement. This subsection shall apply only when the fees, materials, and meals are provided to attendees on a similar basis. This is intended to apply to group events attended by Board members or staff and other clients of the sponsoring organization, or other partners or advisory board members in the same investment; and,

l. unsolicited token beverages such as coffee, tea, water or juice, generally made available free of charge to the provider's employees, customers and/or visitors.

As used in Subsection d and f, "reasonable expenses" are limited to travel, lodging, and subsistence (meals) expenses incurred the day before, through the day after the event. An employee or Board member is allowed payment or reimbursement for travel, lodging and subsistence for the same expenses that he or she would be eligible to receive if the state were reimbursing him or her.

2. As defined in RCW 42.52.010(18), "thing of economic value", in addition to its ordinary meaning, includes:

   a. a loan, property interest, interest in a contract or other chose in action, and employment or other arrangement involving a right to compensation;

   b. an option, irrespective of the conditions to the exercise of such option; and,

   c. a promise or undertaking for the present or future delivery or procurement.

C. **Guidelines**

1. No employee of the Board or member of the Board shall receive, accept, seek or solicit, directly or indirectly, anything of economic value as a gift, gratuity, or favor from a person if it could be reasonably expected that the gift, gratuity, or favor would:

   a. influence the vote, action, or judgment of the officer or employee, or

   b. be considered as part of a reward for action or inaction.

2. No employee of the Board or member of the Board may accept gifts with an aggregate value of $50 from a single source in a calendar year or a single gift from multiple sources with a value in excess of $50. The value of gifts given to family members are attributable to the employee or Board member for the purpose of determining whether the $50 limit has been exceeded, unless an independent business, family or social relationship exists between the donor and the family member.

3. Except as provided in Subsection 6 below, the following items are presumed not to influence as set forth in Subsection 1 above. Employees or Board members may accept the following items without regard to the $50 limit set forth in Subsection 2 above:

   a. unsolicited flowers, plants, and floral arrangements;

   b. unsolicited advertising or promotional items of nominal value, such as pens and note pads;

   c. unsolicited tokens or awards of appreciation in the form of a plaque, trophy, desk item, wall memento, or similar item;

   d. unsolicited items received for the purpose of evaluation or review, if the employee or Board member has no personal beneficial interest in the eventual use or acquisition of the item by the SIB;

   e. informational material, publications, or subscriptions related to the recipient's performance of official duties;

f. food and beverages consumed at hosted receptions where attendance is related to the employee's or Board member's official duties. (A hosted reception is a social event involving a diverse group of people, some who provide goods, services or investments to the Board and some who do not. It does not involve a sit-down meal. It does not include an event attended only by Board members or employees and persons seeking to provide goods, services or investments to the Board);

g. admission to and the cost of food and beverages consumed at events sponsored by or in conjunction with a civic, charitable, governmental, or community organization; and,

h. unsolicited gifts from dignitaries from another state or a foreign country that are intended to be personal in nature.

4. Except as prohibited by Subsection 6 below, employees and Board members may accept food and beverage on infrequent occasions in the ordinary course of meals where attendance by the employee or Board member is related to the performance of official duties.

5. If the employee or Board member is allowed to accept a gift as set forth above, the employee or Board member is still obligated to evaluate the propriety of accepting the gift. In evaluating the propriety of gifts, employees and Board members should be sensitive to the source and value of the gift, the frequency of gifts from one source, the possible motives of the giver, and the perception of others regarding the gift. Since no offsetting public good is achieved by creating an appearance of impropriety when accepting gifts, close cases should always be decided by rejecting gifts, gratuities, or favors that may raise questions regarding the employee's integrity, independence, and impartiality. If an employee or Board member is uncertain as to whether to accept the gift, he or she should consult the assistant attorney general assigned to represent the Board.

6. The SIB is involved in the acquisition of goods and services. The acquisition of goods includes not only the acquisition of products, i.e. computers, office supplies and furniture, but also includes the acquisition of investments. When the Board participates in an acquisition, all Board members participate in that acquisition of goods and services. However, not all employees of the Board participate in the acquisition of goods and services. This subsection supersedes Sections B.1. and C.3. above. All Board members and all employees who participate in the acquisition of goods and services, which includes the acquisition of investments, may receive, accept, take or seek, directly or indirectly, <u>only</u> the following items from a person (which includes entities) who seeks to provide goods or services to the SIB:

a. unsolicited advertising or promotional items of nominal value, such as pens and note pads;

b. unsolicited tokens or awards of appreciation in the form of a plaque, trophy, desk item, wall memento, or similar item;

c. unsolicited items received for the purpose of evaluation or review, if the employee or Board member has no personal beneficial interest in the eventual use or acquisition of the item by the SIB;

d. informational material, publications, or subscriptions related to the recipient's performance of official duties;

e. food and beverages consumed at hosted receptions where attendance is related to the employee's or Board member's official duties. (A hosted reception is a social event involving a diverse group of people, some who provide goods, services or investments to the Board and some who do not. It does not involve a sit-down meal. It does not include an event attended only by Board members or employees and persons seeking to provide goods, services or investments to the Board);

f. admission to and the cost of food and beverages consumed at events sponsored by or in conjunction with a civic, charitable, governmental, or community organization; and,

g. those items excluded from the definition of gift in Section B.1.a-l. except:

1) payments by a governmental entity or a nongovernmental entity of reasonable expenses incurred in connection with a speech, presentation, appearance, or trade mission made in an official capacity;

2) payment for seminars and educational programs sponsored by a bona fide nonprofit professional, educational, or trade association, or charitable institution; and,

3) flowers, plants, and floral arrangements.

7. A person (which includes entities) seeking to provide goods or services to the Board may be an association comprised of individuals or firms seeking to provide goods or services. However, an association will not be considered as seeking to provide goods or services to the Board if all of the following conditions are met:

a. the association itself does not seek to provide goods or services to the Board; and,

b. persons within the association who seek to provide goods and services to the Board:

1) comprise less than ten percent of the membership of the association; and,

2) contribute less than ten percent of the association funds; and,

c. the event, or meals and beverages served in connection with the event, is sponsored or furnished by the association as a whole and not by, or primarily by, persons seeking to provide goods or services to the Board.

D. **Monitoring**

The monitoring of gifts shall be as follows:

1. Monthly Report. All employees and Board members shall report all gifts which have or are believed to have a value in excess of $50 on the SIB Gift Reporting Form, SIB040, see Forms Manual. Items which are not included in the definition of gift as set forth in Section B.1.a.-l. do not need to be reported on the SIB Gift Reporting Form. Employees shall file this reporting form with the executive director. The executive director and Board members shall file this reporting form with the Audit Committee on a monthly basis. The monthly reporting period commences on the first day of each month and the report should therefore be filed within ten days of the end of the reporting period.

2. Statement of Financial Affairs. All Board members and exempt employees (including temporary exempt employees) must file a Statement of Financial Affairs, PDC Form F-1 or F-1a. In accordance with statutory requirements, all Board members and the executive director are required to file a PDC form with the Public Disclosure Commission within two weeks of appointment and annually by the deadline of April 15 of each calendar year. A copy of the PDC form is to be provided to the SIB. By SIB policy, exempt employees (including temporary exempt employees) with investment management duties are also required to similarly file with the PDC, with a copy of the PDC form provided to the SIB. Other SIB exempt employees (including temporary exempt employees) who do not have investment management duties are required to complete the PDC form within two weeks of appointment and by April 15 of each calendar year, but are only required to submit the form to the SIB (not to the Public Disclosure Commission). The assistant attorney general assigned to the Board will annually review the statement of financial affairs to ensure that all gifts have been properly reported. The assistant attorney general will report the results of each annual review to the Audit Committee.

II. TRAVEL

A. **Purpose**

The provisions of Section II Travel are applicable to employees or Board members when acting in their official SIB capacity or participating in events because of that position.

It is the intent of the Board to implement a system for the management and control of travel for employees and Board members when the payment of travel expenses is from a source other than the state. Under certain circumstances, payment or reimbursement for travel and related

expenses by a source other than the state could be a prohibited gift pursuant to RCW 42.52 and WAC 287-04-031. The Board seeks to clarify when travel and related expenses may be paid or reimbursed by another source, in compliance with applicable legislative mandates.

B. **Definitions**

When used in this code, the following terms shall have the following definitions:

1. "Speaking engagements" shall be those events when a Board employee or member is asked to be a speaker or give a presentation at a conference. This term applies when the sponsor of the conference offers to pay for the travel, lodging and related expenses for the attendance of the speaker.

2. "Partnership Meetings" shall be those meetings of a partnership where representation of the Board is required because the Board is a limited partner in the partnership. This term applies when the employee's or Board member's travel and related expenses are to be paid either by the general partners or the partnership account.

3. "Conferences" shall be conferences or training meetings sponsored by a private organization, corporation or association. This term applies when the sponsor of the event offers to pay all or subsidize part of the travel and related expenses for the attendance of the participant.

4. "Honorarium" means money or thing of value offered to an employee or Board member for a speech, appearance, article or similar item or activity in connection with the employee's or Board member's official role.

C. **Guidelines**

1. Acceptance. No employee of the Board shall accept an invitation to attend a speaking engagement, partnership meeting or conference without the prior approval of the executive director or designee. The executive director shall not accept an invitation to attend a speaking engagement, partnership meeting or conference without the prior approval of the Board Chair or designee. No Board member shall accept an invitation to attend a speaking engagement, partnership meeting or conference without the prior approval of the Board Chair or designee. Request for approval shall be made in writing on the Travel Request Form (T-1/SIB009, see Forms Manual) and sent to the Board Chair through the executive director. If circumstances are such that advance approval cannot be retained, request and approval shall be given as soon thereafter as reasonably practicable.

2. Approval of Acceptance. The approval authority shall have discretion to approve, prohibit or approve with limitations either the attendance at the speaking engagement, partnership meeting or conference or approve attendance but prohibit the reimbursement of travel and related expenses by a source other than the state. This decision shall be based on all the relevant facts and circumstances, including but not limited to:

a. the purpose of the event;

b. identity of sponsor and relationship of sponsor to the Board;

c. the items for which the sponsor is offering to pay; and,

d. the cost of that which the sponsor is offering to pay and compare to the cost allowed by the state for the trip.

In approving attendance or acceptance of payment or reimbursement, the approval authority may impose such conditions or restrictions on the travel as deemed appropriate.

3. Prohibitions. Except for registration fees; materials, and meals and associated beverages which are not deemed gifts under Section I. B.1(k) of this Code of Conduct:

a. In no event may approval be granted to accept payment or reimbursement if the source of payment or reimbursement is a person who seeks to provide goods or services to the SIB and the recipient of the travel is either a Board member or an employee who participates in the acquisition of the goods or services which will be sought.

b. In situations not covered by Section II. C.3.a., above, approval may only be granted if:

1) payment is only for reasonable expenses incurred in connection with a speech, presentation, appearance or trade mission made in an official capacity, or

2) the seminar or educational program to be attended is sponsored by a bona fide non-profit professional educational, or trade associations or charitable institution.

c. Reasonable Expenses: In no event may approval be granted to accept payment or reimbursement from a source other than the state of Washington for anything more than the cost of travel, lodging and meals incurred in connection with the travel no earlier than the day before the beginning of the event or later than the day after the event. Payment or reimbursement shall not exceed the amount the employee or Board member would be eligible to receive if the state were reimbursing him or her.

4. Hosted Entertainment During Travel. While attending a speaking engagement, partnership meeting or conference, the sponsor of the event may provide entertainment at no cost to the participants. Employees and the Board members may accept meals, refreshments at the hosted receptions or entertainment only when such entertainment is part of the event's activities and is open to all those who are attending the event (although

it is not necessary that all participants do attend) unless the employee or Board member has reason to believe that the entertainment is being provided to obtain contractual business or financial relations with the Board. If during travel, hosted entertainment is provided to only specific individuals who are directly selected for participation and the entertainment is not part of the event program, open to all attendees, then it may not be accepted unless it is food and beverage on an infrequent occasion in the ordinary course of a meal where attendance is related to the recipient's performance of official duties. Remember, acceptance of this type of food and beverage must be reported on the recipient's F-1 or F-1a if the value exceeds $50. Additionally, Board members and employees who participate in the acquisition of goods and services may not accept the hosted entertainment if the sponsor of the food and beverage is one that will seek to provide goods or services to the SIB.

Nothing in this Subsection 4 shall prevent Board members or employees from accepting items deemed not to be gifts under Section I. B.1.k. of this Code of Conduct.

5. Honorarium.

a. In no event may an employee or Board member accept an honorarium if the person offering the honorarium is:

1) seeking or is reasonably expected to seek contractual relations with the SIB; or,

2) seeking or opposing or is reasonably likely to seek or oppose enactment of legislation or adoption of administrative rules or actions, or policy changes by or affecting the SIB.

b. An employee or Board member may accept honorarium if all of the following are met:

1) the employee or Board member will not be carrying out their agency duties nor engaging in activity which focuses specifically on the SIB's responsibilities, policies or programs;

2) the honorarium is not being offered because of the employee's or Board member's official position in the SIB;

3) the topic is such that it does not appear that the employee or Board member could have used information acquired in the course of employment or membership on the SIB;

4) the honorarium is not being offered by a person or entity which does business with or can reasonably be expected to seek business with the SIB; and,

5) no use of government time or resources was used by the employee or Board member to produce the materials or prepare for the article, appearance, or item for which the honorarium is being given.

D. **Monitoring**

1. A copy of all memoranda requesting travel shall be maintained in the office of the Board by the executive director after signature by the approval authority. The assistant attorney general assigned to represent the Board shall, on an annual basis, review all filed travel requests to ensure compliance with this policy and state law. The assistant attorney general will report the results of this review to the audit committee.

2. If hosted entertainment is provided during travel and this was not reflected in the request for travel, upon return from the speaking engagement, partnership meeting or conference, the employee or Board member shall submit a report to the approval authority stating the entertainment provided and approximate cost, if known. Such hosted entertainment is within the definition of a gift under the previous section of the code and, must be reported on the monthly gift report. All reports will be kept in the office of the Board by the executive director. The reports will be reviewed by the assistant attorney general representing the Board during his or her annual review of travel requests and the results will be included in the report to the audit committee.

III. PERSONAL INVESTMENTS

A. **Purpose**

RCW 42.52.190 and WAC 287-04-031 prohibit an employee of the Board and Board members from making certain investments for his or her own personal account which give rise to actual or potential conflicts of interest with investments made by the Board. The Board invests in a wide range of investments and personal investments by Board employees and members in the same or related investments may give rise to prohibited conflicts of interest, or at the very least, the appearance of impropriety. In addition, through the Board's investments, employees and members may have access to material non-public information regarding certain entities, the trading of securities of which may violate federal securities laws. Subsection III is intended to enable the Board to ensure strict compliance with, and to prevent inadvertent violations of such prohibitions, as well as to guard against any appearance of impropriety that may adversely affect the credibility or reputation of the Board.

B. **Definitions**

1. "Permissible investment" means any mutual fund or deposit account, certificate of deposit or money market fund maintained with a bank, broker or other financial institution. Any "permissible investment" also includes a security publicly traded in an organized market if the interest in the security at acquisition is $10,000 or less, or an interest in real estate unless such interest involves a transaction with a party who has a

contractual, investment, or other financial relationship with the Board. Interest in real estate includes an interest in a real estate mortgage.

2. "Other investment" means any investment not defined as a permissible investment in the preceding paragraph.

3. "Immediate family" includes the spouse, dependent children, other dependent relatives if living in the household and any other household member, whether or not related.

C. **Guidelines**

1. Approval of Certain Personal Investments Required.

a. Board members and employees may acquire "permissible investments" without the prior written approval of the appropriate approval authority.

b. No employee of the Board or Board member shall, or shall permit any member of his or her immediate family to, acquire any "other investment," without the prior written approval of the appropriate approval authority.

c. The approval authority shall be as follows:

1) the executive director or his or her designee shall be the approval authority for all employees;

2) the executive director or his or her designee shall be the approval authority for all Board members. The executive director or his or her designee shall annually report to the Audit Committee on decisions made regarding any approval granted or denied to a Board member.

3) the chair or his or her designee shall be the approval authority for the executive director. The chair or his or her designee shall annually report to the Audit Committee on decisions made regarding any approval granted or denied to the executive director.

d. Board members and employees may make a one-time request for prior approval to participate in an automatic stock dividend reinvestment plan, even though at each successive acquisition under the plan, the total value of the shares of that stock may exceed $10,000 in value.

e. Board members and employees are not required to obtain approval of sales or transfers to others of any interest in property, including securities; provided, that approval <u>may</u> be required if such sale or transfer is to a member or employee's immediate family or to an entity owned or controlled by the member or employee or by his or her immediate family. (Such approval is necessary if the

transaction would otherwise require the member or employee to seek approval based on a transaction involving his/her immediately family.)

f. No employee of the Board or Board member shall participate in a LBO or venture capital IPO of which the Board has an interest until such shares are available to the general public.

2. Approval Criteria and Other Considerations.

a. The approval authority shall have discretion to prohibit any proposed acquisition by a Board member, staff member, or member of his or her immediate family, or by an entity owned or controlled by any such person, of an "other investment" which the approval authority believes may involve a violation of any federal or state law, or administrative rule, or any provision of this Code of Conduct, or which may present an appearance of impropriety that may adversely affect the credibility or reputation of the Board, based on all the relevant facts and circumstances. The approval authority may consider the following circumstances, including, but is not limited to them:

1) any relationship or affiliation between or among the person proposing the investment for approval (or a member of that person's immediate family, or an entity owned or controlled by any such person) and any entity or person in or through which the Board has invested assets;

2) access of the Board or any of its employees to material non-public information regarding the subject investment or any related entity;

3) the existence of a public market for the investment;

4) the size and timing of the investment.

The disapproval of the purchase of an investment may not be arbitrary and capricious, without any cause. However, in no event may the purchase of an investment be approved if it would result in a violation of law. In approving any proposed purchase of an investment, the approval authority may impose such conditions or restrictions on the investment as deemed appropriate. Approval or disapproval must be related in writing to the proposer not more than three days from receipt of the request.

b. An investment by, or other interest of, a Board member or employee (the "proposer"), or member of the proposer's immediate family, in a security publicly traded in an organized market always will be deemed approved if the investment or interest satisfies all of the following criteria:

1) the proposer's accumulated interest in the subject investment at acquisition must not exceed $500,000. For purposes of futures contracts, "accumulated interest" shall mean net exposure;

2) the proposer must not have received non-public information (either orally or in writing) from Board files; investment managers, broker/dealers, consultants, or legal advisors for the Board; Board members; Board staff; or anyone else connected with the Board regarding the subject investment;

3) waiting to obtain approval prior to acquisition in the interest in the subject investment must be likely to impact the opportunity in or value of such investment; and,

4) the acquisition of the interest in the securities by the proposer must not violate any law or any other subsection of this Code of Conduct.

If the proposer believes that all of the criteria 1 through 4 will be satisfied by the proposed investment, the proposer may proceed to acquire the interest in the security(ies), subject to the following requirements:

a) the proposer shall report the acquisition of the investment or other interest requiring approval (Report of Purchase of Investments, SIB020, see Forms Manual), and shall certify that the investment meets all of the criteria, to the approving authority within two (2) business days following the acquisition; such report, and certification shall be on a form or forms obtained from the Board; and,

b) if the approving authority determines, upon review of the report and certification that one or more of the criteria were not satisfied (or the acquisition is disapproved for another reason or reasons), the proposer shall, upon request of the approving authority, promptly reverse the transaction, or otherwise divest himself or herself of the investment or interest; provided that the approving authority, in it's discretion may limit this requirement to returning or divesting only the amount of the investment necessary to make the investment a permissible investment if the only criteria not met are 1 or 3. The proposer shall bear the sole risk of any loss to the proposer resulting from complying with the request.

This Subsection III C.2.b. shall not apply to investments already held prior to appointment to the position.

3. Prior Investments.

If an employee or a Board member owns what is defined above as an "other investment", it must be disclosed to the approval authority within two weeks after appointment to the position. The approval authority shall make note of the other investment in the SIB investment log. Unless circumstances warrant, the employee or Board member will not have to divest himself/herself of the investment but will not be able to participate in activities which would result in a conflict or appearance of conflict as set forth in Section IV below.

D. **Monitoring**

The monitoring of investments shall be as follows:

1. Log of Approved Investments. Upon approval of the purchase of any investment, the approval authority shall record or cause to be recorded in a log maintained by the Board. The log entry shall include the name of the proposer, the name of the immediate family member, if applicable, the nature of the investment, the value of the transaction, the date on which the transaction took place and any other pertinent information deemed appropriate by the approval authority.

2. Statement of Financial Affairs. All Board members and exempt employees (including temporary exempt employees) must file a Statement of Financial Affairs, PDC Form F-1 or F-1a. Such statement should reflect all investments acquired or held by the Board member or employee, and members of his or her immediate family, during the reporting period. In accordance with statutory requirements, all Board members and the executive director are required to file a PDC form with the Public Disclosure Commission within two weeks of appointment and annually by the deadline of April 15 of each calendar year. A copy of the PDC form is to be provided to the SIB. By SIB policy, exempt employees (including temporary exempt employees) with investment management duties are also required to similarly file with the PDC, with a copy of the PDC form provided to the SIB. Other SIB exempt employees (including temporary exempt employees) who do not have investment management duties are required to complete the PDC form within two weeks of appointment and by April 15 of each calendar year, but are only required to submit the form to the SIB (not to the Public Disclosure Commission). The assistant attorney general assigned to the Board will annually review the statement of financial affairs to ensure that all investments disclosed have been approved and recorded in the Board's log. The assistant attorney general will report the results of each annual review to the Audit Committee.

IV. CONFLICTS OF INTEREST

A. **Purpose**

The fundamental principle underlying the following conflict of interest rules is that any Board member or employee of the Board occupies a special position of fiduciary trust and confidence such that he or she must studiously and conscientiously avoid not only actual fiduciary breaches of trust against the Board, but also any reasonable appearance of a conflict of interest. It is

understood, however, particularly in the instance of the nonvoting Board members, that it is not reasonable to demand so complete a disassociation from the private sector as to preclude each and every possibility of a conflict of interest arising. Accordingly, this code section considers the intention and motives as well as the extrinsic acts of those persons having a fiduciary relationship with the Board.

B. **Definitions**

1. A "Conflict of Interest" exists whenever a Board member or employee of the Board is in a position in which he or she takes any action that is, may be or reasonably appears to be influenced by considerations of personal gain or benefit rather than motivated by the interests of the Board and its funds or the beneficiaries of the funds.

   Board members and employees of the Board owe an absolute duty of loyalty to the Board and the members and beneficiaries of the funds. A "conflict of interest" exists whenever a Board member or employee is in a position in which he or she takes any action that is, may be or reasonably appears to be influenced by considerations other than that which is in the best interest of the Board, whether or not these other considerations are for financial or personal gain. Such action motivated by other considerations would be a breach of the member or employee's duty of loyalty.

2. "Transaction involving the Board" means a proceeding, application, investment decision, investment agreement, contract, sale, lease, purchase or any other acquisition or disposal of any asset, goods or services, request for a ruling or other determination, claim, case or similar matter that the member or employee in question believes, or has reason to believe:

   a. is, or will be the subject of Board action; or

   b. is one to which the Board is or will be a party; or

   c. is one in which the Board has a direct and substantial proprietary interest.

   "Transaction involving the Board" does not include the following: preparation, consideration or enactment of legislation, including appropriation of moneys in a budget, or the performance of legislative duties by a member or employee; or a claim, case, lawsuit, or similar matter if the member or employee did not participate in the underlying transaction involving the Board that is the basis for the claim, case or lawsuit. Rule making is not a "transaction involving the Board."

3. "Board action" means any action on the part of the Board including, but not limited to:

   a. a decision, determination, finding, ruling, or Board order; and

   b. an investment decision or approval of an investment decision , an investment contract or approval of an investment contract, any other contract or approval of

such contract, or any other transaction or approval of such transaction, sanction, denial of a transaction or request, or failure to act with respect to a decision, determination, finding, ruling or order.

C. **Guidelines**

1. A member or employee of the SIB shall comply with Subsection IV C.2 below when the following circumstances apply or it is reasonably foreseeable that they will apply:

   a. the member or employee is beneficially interested, directly or indirectly, in an investment decision, investment agreement, contract, sale, lease, purchase, or any other acquisition or disposal of an asset, goods or services made by, through, or under the supervision of the Board, in whole or in part; or,

   b. the member or employee either owns a beneficial interest in, or is an officer, agent, employee or member of, an entity which is engaged in a transaction involving the Board; or,

   c. a member or employee accepts, directly or indirectly, any compensation, gratuity or reward from any other person beneficially interested in such investment decision, investment agreement, contract, sale, lease, purchase, or any other acquisition or disposal of assets, goods or services; or,

   d. a member or employee's participation in a Board discussion or vote is motivated by something other than the best interests of the Board, its members and beneficiaries, in violation of that person's duty of loyalty.

2. a. If required by Subsection IV C.1 above, the member or employee shall:

      1) recuse him or herself from discussions by the Board, or any committee of the Board, regarding the specific investment decision or other transaction,

      2) recuse him or herself from any vote by the Board, or any committee of the Board, upon the specific investment decision or other transaction; and,

      3) refrain from attempting to influence any other Board member or employee in any discussion or vote regarding the specific investment decision or transaction.

   b. If recusal by a member or employee occurs pursuant to this subsection, the member or employee shall disclose to the public the reasons for his or her recusal from any Board discussion or action at or prior to the time recusal occurs. The Board staff shall record each such recusal and basis for the recusal.

c. The prohibitions contained in Subsection IV C.2.a. above do not prohibit the member or employee from using his or her general expertise to educate and provide general information on the subject area to other members or employees.

3. No Board member or employee shall borrow from investment managers, outside service providers, professional advisors or consultants, banks or other financial institutions with which the Board has a business relationship, except and unless such entities are normally engaged in such lending in the usual course of their business, and then only on terms offered to others under similar circumstances.

4. No Board member or employee may have an interest, financial or otherwise, direct or indirect, or engage in a business or transaction or professional activity, or incur an obligation of any nature, that is in conflict with the proper discharge of the employee's or officer's duties.

V. USE OF POSITION

A. **Purpose**

Members or employees of the Board, are more likely to have information which is not available to the general public. Members or employees of the Board are also in influential positions of power. These guidelines are to prevent an inadvertent abuse of this power or release of confidential or non-public information, that could result in a financial detriment or loss of trust by the people.

B. **Guidelines**

1. Confidential information shall be used solely for the Board's purposes and under no circumstances revealed to unauthorized persons, except as may be otherwise required to be disclosed as a public record pursuant to the requirements of RCW42.17. If an employee or Board member knows that a record is required to be released pursuant to RCW 42.17, the employee or Board member has an affirmative duty to properly disclose the record.

2. No Board member or employee shall divulge state agency or Board information or proprietary information in the Board's possession, whether labeled confidential or not, to any unauthorized person or in advance of the time prescribed for its authorized issuance, or otherwise making use of, or permitting others to make use of, information not available to the general public.

3. Board members who share confidential information, state agency or Board information or proprietary information with special staff members who are not employees of the Board, have the responsibility to ensure that those special staff members who have been given access to such information confirm and follow the guidelines set forth in this Code of Conduct regarding the use of such information.

4. No Board member or employee shall use his or her position or employment with the Board, or use Board facilities, equipment or supplies, to obtain or attempt to obtain private gain or advantage, either for themselves or for other persons.

5. Except in the course of official duties, no Board member or employee shall use his or her position or employment with the Board, or use Board facilities, equipment or supplies, to assist another in a transaction involving the Board, or use his or her influence over the Board to obtain or attempt to obtain gain or advantage for the person or entity seeking to transact business with the Board.

6. No Board member or employee shall accept employment or engage in business or professional activity which he or she might reasonably expect would require or induce him or her to disclose confidential information acquired by him or her by reason of his or her official position.

7. No Board member or employee shall accept post public service employment after leaving his or her official position with the agency in violation of state law.

VI. ADDITIONAL RESPONSIBILITIES OF BOARD MEMBERS AND EMPLOYEES

A. Board members and the executive director are required to file a Statement of Financial Affairs, PDC Form F-1 or F-1a with the PDC within two weeks after appointment and annually by April 15 (RCW 42.17). In addition, Board members will file a copy with the executive director so that such copy can be forwarded to the assistant attorney general for review as specified in this code.

B. All exempt employees (including temporary exempt employees) are required to file a Statement of Financial Affairs, PDC Form F-1 or F-1a within two weeks from the date they start their employment and annually by April 15. The F-1 covers the previous calendar year or part of the calendar year if the employee began employment after January 1. If an employee is terminating his or her employment prior to filing an F-1 on April 15, the employee shall file a final report. Employees who leave employment after April 15 but prior to December 31 do not have to file another F-1. A copy of the form will be given to the assistant attorney general for review as specified by this Code.

Exempt employees (including temporary exempt employees) with investment management duties shall file with the PDC, similar to the Board members and Executive Director. Other exempt employees (including temporary exempt employees) who do <u>not</u> have investment management duties shall file the PDC form internally with the SIB.

C. The executive director is responsible for ensuring that all new employees are given a copy of this Code of Conduct within one week from their start of employment. Also, the executive director is responsible for providing a copy of this code to all new Board members by their first Board meeting. The executive director is also responsible for ensuring that training on ethics and the code of conduct is provided to all new staff and Board members in a timely manner, and a review

given to existing employees and Board members every three years to reinforce the provisions of this code and answer any staff questions.

VII. SANCTIONS FOR VIOLATION

A Board member or employee who is found by the Board to have violated this Code of Conduct may be subject to official reprimand by vote of the Board.

In the event that the Board determines a violation of the Code to be so egregious or apparent as to constitute malfeasance, misfeasance, inefficiency, neglect of duty, incapacity or unfitness to perform his or her fiduciary duties and responsibilities in the exclusive interest of the Board and its beneficiaries, and if the offending person is:

1. a voting Board member: The Board, in its sole discretion may refer the matter to the proper appointing authority or the attorney general, as deemed appropriate; or if,

2. a nonvoting Board member: the Board, in its sole discretion, may take the appropriate steps necessary to and remove the offending member from the Board; or if,

3. the executive director: the Board, in its sole discretion, may take the appropriate steps to remove the director in compliance with RCW 43.33A.100; or if,

4. an employee of the Board governed by the Merit Systems Rules: the executive director may take such disciplinary action as authorized under Title 356 WAC up to and including termination of employment; or if,

5. an exempt employee of the Board: the executive director may take whatever disciplinary action deemed appropriate, up to and including termination of employment.

The exercise of any sanction referenced above shall not exhaust, diminish or otherwise prevent such other authorized civil or criminal sanctions as may be authorized pursuant to another state statute or rule.

The Executive Ethics Board has the authority to enforce RCW 42.52 and all rules adopted under it. See RCW 42.52.360. In addition, the SIB may refer the alleged violation to the Executive Ethics Board for further investigation as provided under RCW 42.52.360 or the Executive Ethics Board may refer a complaint to the SIB for initial investigation and proposed resolution or to the attorney general or county prosecutor under RCW 42.52.470.

(Also reference Administrative Policy Number 4.00.500, Misappropriation of State Resources.)

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Revised 10/18/01
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