



HOUSE BILL 161: Divestment From Companies That Boycott Israel.

2017-2018 General Assembly

Committee:	Senate Rules and Operations of the Senate	Date:	June 26, 2017
Introduced by:	Reps. Ross, Szoka, Hardister	Prepared by:	Amy Darden Staff Attorney
Analysis of:	Third Edition		

OVERVIEW: *House Bill 161 would require State divestment from, and prohibit State agencies from contracting with, companies that boycott Israel. House Bill 161 would also amend the existing Sudan and Iran Divestment statutes.*

BILL ANALYSIS:

Part I – Divestment from Companies Boycotting Israel:

Section 1.1: would establish in Chapter 147, a new Article 6G, entitled Divestment from Companies Boycotting Israel.

Definitions are established in G.S. 147-86.80 for the following terms: Boycott Israel or boycott of Israel; Company; Investment; Restricted Company; and State agency. A boycott of Israel is defined as engaging in refusals to deal, terminating business activities, or taking actions that are intended to penalize, inflict economic harm, or otherwise limit commercial relations specifically with Israel or persons doing business in Israel or Israeli-controlled territories. It does not apply to decisions made for ordinary business purposes or for actions with an economic impact of less than \$20 million dollars in a 12-month period. Investment means the same as in G.S. 147-86.57(3), contained in the Iran Divestment Act, which is a commitment or contribution of funds or property, whatever the source, a loan or other extension of credit, and the entry into or renewal of a contract for goods or services. It does not include indirect beneficial ownership through index funds, commingled funds, limited partnerships, derivative instruments, or the like.

Prohibition on State Investment – G.S. 147-86.81 provides that no more than 30 days after October 1, 2017, the State Treasurer must adopt a policy prohibiting the North Carolina Retirement Systems or the Department of State Treasurer from directly investing in any company engaged in a boycott of Israel.

List of Restricted Companies – Pursuant to G.S. 147-86.81, within 120 days of adoption of the policy, the State Treasurer must use other state lists of restricted companies, federal information or guidance and any other credible information to develop and make publically available a list of companies determined to be engaged in a boycott. Every effort must be made to avoid erroneously including a company on the list and before finalizing an initial or updated list the State Treasurer must:

- Provide 90 days written notice of the intent to include the company on the list. The notice must specify that the company may be removed from the list if the company ceases its engagement in a boycott of Israel.
- Provide a company with an opportunity to comment in writing that the company is not engaged in a boycott of Israel or has ceased its boycott. A company that has ceased a boycott must submit

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H 1 6 1 - S M B B - 6 2 E 3 - V - 2

Legislative Analysis
Division
919-733-2578

House Bill 161

Page 2

written certification to the state Treasurer that the company will not reengage in a boycott for the duration of any business with the State.

Identification of Investments, Investments Prohibited, Existing Investments– G.S. 147-86.81(2), (4), and (5) provide that upon completion of the initial list of restricted companies, the State Treasurer must identify any restricted companies in which the Retirement Systems own direct holdings or indirect holdings. The Retirement Systems and the State Treasurer are prohibited from investing funds with a company that is identified on the list of restricted companies. Any existing investment with a company that is identified on the list as a company engaging in restricted activities must be divested within 180 days of the adoption of the policy.

Review of the Restricted Companies List – G.S. 147-86.81(3) requires the State Treasurer to review the list of restricted companies on an annual basis and to make the updated list publically available, as well as distribute the updates to the NC Retirement Systems.

Restriction on Contracts – G.S. 147-86.82 provides that a company identified as a restricted company is ineligible to contract with the State or any political subdivisions. Any contract entered into with a restricted company is void. A company that was not initially identified, but is identified later as a restricted company will be reviewed and the company will be offered an opportunity to respond. Contracts with restricted companies in existence on October 1, 2017, will be allowed to expire in accordance with the terms of the contract. G.S. 147-86.83 provides that the restrictions on contracts do not apply to contracts valued at \$1,000 or less.

Reports – G.S. 147-86.84 requires the State Treasurer to report to the Joint Legislative Commission on Governmental Operations on an annual basis on October 1 of each year. The report must include information regarding investments sold, redeemed, divested or withdrawn in compliance with the Article.

Section 1.2(a) provides that the State Treasurer is authorized to retain the services of consultants, professional individuals, analysts, data collection firms and other persons possessing specialized skills or knowledge necessary to implement and administer the act. This section would become effective when it becomes law.

Part II – Amend Sudan (Darfur) Divestment Act:

Section 2.1 would update the types of investments subject to divestment, consistent with the Boycott Israel Divestment and Iran Divestment programs. It would also eliminate the need for definitions of *direct holdings, indirect holdings, active business operations, and inactive business operations.*

Section 2.2 would conform the process for developing the divestment list and notifying companies that they will be listed to the Iran and Boycott Israel Divestment programs.

Section 2.3 would clarify the Treasurer must carry out administration of the Sudan Divestment program consistent with existing fiduciary duty to the Retirement Systems. This section would also conform the list publication cycle with the Boycott Israel Divestment program.

Section 2.4 would synchronize the annual reporting cycle and content for reporting with the Boycott Israel Divestment and Iran Divestment programs by requiring reporting to the Joint Legislative Commission on Governmental Operations annually on October 1.

Section 2.5 would repeal G.S. 147-86.47, which would be duplicative, and would repeal G.S. 147-86.48, which would no longer be necessary based upon the above changes.

House Bill 161

Page 3

Part III – Amend Iran Divestment Act:

Sections 3.1, 3.5, and 3.8 would conform the terminology used in the Iran Divestment Act to the Boycott Israel Divestment and Sudan Divestment programs by changing *person* to *company* throughout the definitions section.

Section 3.2 would add the definition of *company*, which would mirror the definition used in the Boycott Israel Divestment and Sudan Divestment programs.

Section 3.3 would allow research on companies to be based on the same source material and listing criteria as the Boycott Israel Divestment and Sudan Divestment programs.

Section 3.4 would repeal G.S. 147-86.59, which currently requires a signed certification from the contract counterparty asserting their entity is not on the divestment list. This would conform to the Boycott Israel Divestment and Sudan Divestment programs.

Section 3.6 would clarify that companies that meet the criteria of *substantial positive action* will not be subject to divestment.

Section 3.7 would synchronize the annual reporting cycle and content for reporting with the Boycott Israel Divestment and Sudan Divestment programs by requiring reporting to the Joint Legislative Commission on Governmental Operations annually on October 1.

EFFECTIVE DATE: Except as otherwise provided, the bill would become effective October 1, 2017.

Theresa Matula, Legislative Analyst, substantially contributed to this summary.