

FIRST REGULAR SESSION  
[PERFECTED]  
HOUSE COMMITTEE SUBSTITUTE FOR  
**HOUSE BILL NO. 863**  
**102ND GENERAL ASSEMBLY**

1930H.04P

DANA RADEMAN MILLER, Chief Clerk

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**AN ACT**

To repeal section 105.688, RSMo, and to enact in lieu thereof five new sections relating to social objective scoring standards.

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*Be it enacted by the General Assembly of the state of Missouri, as follows:*

Section A. Section 105.688, RSMo, is repealed and five new sections enacted in lieu thereof, to be known as sections 105.688, 105.692, 108.371, 409.115, and 409.117, to read as follows:

105.688. The assets of a system may be invested, reinvested and managed by an investment fiduciary subject to the terms, conditions and limitations provided in sections 105.687 to 105.689. An investment fiduciary shall discharge his or her duties in the interest of the participants in the system and their beneficiaries and shall:

- (1) Act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims;
- (2) Act with due regard for the management, reputation, and stability of the issuer and the character of the particular investments being considered;
- (3) Make investments for the purposes of providing benefits to participants and participants' beneficiaries, and of defraying reasonable expenses of investing the assets of the system;
- (4) Give appropriate consideration to those facts and circumstances that the investment fiduciary knows or should know are relevant to the particular investment or investment course of action involved, including the role of the investment or investment course of action plays in that portion of the system's investments for which the investment

EXPLANATION — Matter enclosed in bold-faced brackets **[thus]** in the above bill is not enacted and is intended to be omitted from the law. Matter in **bold-face** type in the above bill is proposed language.

17 fiduciary has responsibility. For purposes of this subdivision, "appropriate consideration"  
18 shall include, but is not necessarily limited to a determination by the investment fiduciary that  
19 a particular investment or investment course of action is reasonably designed, as part of the  
20 investments of the system, to further the purposes of the system, taking into consideration the  
21 risk of loss and the opportunity for gain or other return associated with the investment or  
22 investment course of action; and consideration of the following factors as they relate to the  
23 investment or investment course of action:

24 (a) The diversification of the investments of the system;

25 (b) The liquidity and current return of the investments of the system relative to the  
26 anticipated cash flow requirements of the system; and

27 (c) The projected return of the investments of the system relative to the funding  
28 objectives of the system;

29 (5) Give appropriate consideration to investments which would enhance the general  
30 welfare of this state and its citizens if those investments offer the safety and rate of return  
31 comparable to other investments available to the investment fiduciary at the time the  
32 investment decision is made;

33 **(6) Not consider environmental, social, or governance characteristics in a**  
34 **manner that would override his or her fiduciary duties as defined in this section;**

35 **(7) Not be subject to any legislative, regulatory, or other mandates to invest with**  
36 **environmentally, socially, or other noneconomically motivated influence unless they are**  
37 **consistent with the fiduciary's responsibility as provided in this section or as provided in**  
38 **the system's governing statutes with respect to the investment of system assets or other**  
39 **duties imposed by law relating to the investment, management, deposit, or custody of**  
40 **system assets; and**

41 **(8) Not be subject to any legislative, regulatory, or other mandates for**  
42 **divestment from any indirect holdings in actively or passively managed investment**  
43 **funds or in private assets.**

**105.692. 1. All shares of common stock held directly by a system, as defined**  
2 **under section 105.687, shall be voted solely in the economic interest of plan participants.**  
3 **Voting shares for the purposes of furthering noneconomic environmental, social,**  
4 **political, ideological, or other goals is prohibited.**

5 **2. A system shall vote all proxies associated with its directly held shares of**  
6 **common stock by one of the following methods:**

7 **(1) By internal system staff; or**

8 **(2) By an investment manager or proxy voting service provider who has**  
9 **committed in writing to vote the shares pursuant to proxy voting guidelines chosen by**

10 the system or has committed in writing to vote the shares in a manner consistent with  
11 the obligation to act solely in the economic interest of plan participants.

108.371. 1. As used in this section, "eligible green project" means a project or  
2 activity that relates to and supports a positive environmental impact including, but not  
3 limited to, assets, investments, and other related and supporting expenditures that relate  
4 to any of the following or other similar categories:

5 (1) Renewable energy including, but not limited to, production, transmission,  
6 and appliances and products;

7 (2) Energy efficiency, such as in new and refurbished buildings, energy storage,  
8 district heating, smart grids, and appliances and products;

9 (3) Pollution prevention and control including, but not limited to, reduction of  
10 air emissions, greenhouse gas control, soil remediation, waste prevention, waste  
11 reduction, waste recycling and energy or emission-efficient waste to energy;

12 (4) Environmentally sustainable management of living natural resources and  
13 land use including, but not limited to, environmentally sustainable agriculture,  
14 environmentally sustainable animal husbandry, climate smart farm inputs such as  
15 biological crop protection or drip-irrigation, environmentally sustainable fishery and  
16 aquaculture, environmentally sustainable forestry including, but not limited to,  
17 afforestation or reforestation, and preservation or restoration of natural landscapes;

18 (5) Terrestrial and aquatic biodiversity conservation including, but not limited  
19 to, the protection of coastal, marine, and watershed environments;

20 (6) Clean transportation, such as electric, hybrid, public, rail, nonmotorized,  
21 multimodal transportation, infrastructure for clean energy vehicles, and reduction of  
22 harmful emissions;

23 (7) Sustainable water and wastewater management including, but not limited to,  
24 sustainable infrastructure for clean or drinking water, wastewater treatment,  
25 sustainable urban drainage systems, and river training and other forms of flooding  
26 mitigation;

27 (8) Climate change adaptation including, but not limited to, efforts to make  
28 infrastructure more resilient to impacts of climate change, as well as information  
29 support systems, such as climate observation and early warning systems;

30 (9) Circular economy adapted products, production technologies and processes,  
31 such as the design and introduction of reusable, recyclable, and refurbished materials,  
32 components, and products; circular tools and services; and certified eco-efficient  
33 products; and

34 (10) Green buildings that meet regional, national, or internationally recognized  
35 standards or certifications for environmental performance.

36           **2. For a municipal bond issued in this state to be rated, certified, or validated as**  
37 **a green bond, at least eighty-five percent of the bond proceeds shall be used for eligible**  
38 **green projects.**

39           **3. (1) Except as provided in subdivision (2) of this subsection, notwithstanding**  
40 **any other provision of law to the contrary, the interest on and income from a municipal**  
41 **bond that is rated, certified, or validated as a green bond shall be exempt from income**  
42 **taxation by this state.**

43           **(2) The exemption from income taxation provided under subdivision (1) of this**  
44 **subsection shall not apply to a municipal bond that is rated, certified, or validated as a**  
45 **green bond and that is issued to finance a project by a private entity.**

46           **4. (1) The state auditor may conduct an audit of municipal green bonds issued**  
47 **by a municipality to review whether such bonds comply with the requirements of this**  
48 **section for being rated, certified, or validated as a green bond. The state auditor may**  
49 **conduct such audit at the state auditor's discretion and shall conduct such audit in the**  
50 **same manner as the state auditor conducts other similar audits under chapter 29.**

51           **(2) If a review of a municipal green bond determines that less than eighty-five**  
52 **percent of the bond proceeds were or are being used for eligible green projects, the**  
53 **green bond rating, certification, or validation on such municipal bond shall be void, the**  
54 **exemption from state income taxation provided under subsection 3 of this section for the**  
55 **interest on and income from such municipal bond shall be void, and the bond holder**  
56 **may recoup the amount of such taxes from the issuer of the bond.**

57           **5. To protect municipal green bond holders and provide moneys for such bond**  
58 **holders to recoup the amount of taxes as provided in subsection 4 of this section, a**  
59 **municipality that issues a municipal green bond shall establish a green bond holder**  
60 **protection fund separate from the municipality's debt service reserve fund or equivalent**  
61 **fund. The amount maintained in the green bond holder protection fund shall be equal**  
62 **to at least the amount of interest to be paid each year on such municipal green bond**  
63 **multiplied by the top state income tax rate.**

**409.115. 1. As used in this section, the following terms mean:**

2           **(1) "Agent", the same meaning as under section 409.1-102;**

3           **(2) "Broker-dealer", the same meaning as under section 409.1-102;**

4           **(3) "Incorporates a social objective", the material fact to consider socially**  
5 **responsible criteria in the investment or commitment of customer funds for the purpose**  
6 **of seeking to obtain an effect other than the maximization of financial return to the**  
7 **customer;**

8           (4) "Nonfinancial objective", the material fact to consider criteria in the  
9 investment or commitment of customer funds for the purpose of seeking to obtain an  
10 effect other than the maximization of financial return to the customer;

11           (5) "Socially responsible criteria", any criterion that is intended to further, or is  
12 branded, advertised, or otherwise publicly described by the broker-dealer or agent, as  
13 furthering any of the following:

14           (a) International, domestic, or industry agreements relating to environmental or  
15 social goals;

16           (b) Corporate governance structures based on social characteristics; or

17           (c) Social or environmental goals.

18           2. If a broker-dealer or agent incorporates a social objective or other  
19 nonfinancial objective into a discretionary investment decision to buy or sell a  
20 security or commodity for a customer, a recommendation or solicitation to a customer  
21 for the purchase or sale of a security or commodity, or the selection, recommendation or  
22 advice to a customer regarding the selection of a third-party manager or subadviser to  
23 manage the investments in the customer's account, then such broker-dealer or agent  
24 shall disclose to such customer the existence of such incorporation.

25           3. The disclosure obligation under subsection 2 of this section is satisfied by  
26 providing clear and conspicuous prior disclosure and obtaining written consent and  
27 acknowledgment from the customer. Written consent shall be obtained:

28           (1) At the establishment of the brokerage relationship; or

29           (2) Prior to:

30           (a) Effecting the initial discretionary investment for the customer's account;

31           (b) Providing the initial recommendation, advice, or solicitation regarding the  
32 purchase or sale of a security or commodity in a customer's account; or

33           (c) Selecting, or recommending or advising on the selection, of a third-party  
34 manager or subadviser to manage the investments in a customer's account.

35           (3) Thereafter, the disclosure shall be provided to the customer on an annual  
36 basis, and no less than every three years, the customer shall consent to the disclosure in  
37 writing.

38           4. (1) Written consent required under subsection 3 of this section shall be  
39 satisfied by language that is substantially similar to the following:

40           "I, (NAME OF CUSTOMER), consent to (as applicable, NAME OF BROKER-  
41 DEALER OR AGENT) incorporating a social objective or other nonfinancial objective  
42 into any discretionary investment decision my (as applicable, broker-dealer or agent)  
43 makes for my account; any recommendation, advice, or solicitation my (as applicable,  
44 broker-dealer or agent) makes to me for the purchase or sale of a security or

45 commodity; or the selection my (as applicable, broker-dealer or agent) makes, or  
46 recommendation or advice my (as applicable, broker-dealer or agent) makes to me  
47 regarding the selection, of a third-party manager or subadviser to manage the  
48 investments in my account. Also, I acknowledge and understand that incorporating a  
49 social objective or other nonfinancial objective into discretionary investment decisions,  
50 recommendations, advice, or the selection of a third-party manager or subadviser to  
51 manage the investments, in regards to my account, will result in investments and  
52 recommendations or advice that are not solely focused on maximizing a financial return  
53 for me or my account."

54 (2) The language in subdivision (1) of this subsection is not exhaustive of the  
55 form or manner in which written consent required under subsection 3 of this section  
56 may be obtained.

409.117. 1. As used in this section, the following terms mean:

2 (1) "Incorporates a social objective", the material fact to consider socially  
3 responsible criteria in the investment or commitment of client funds for the purpose of  
4 seeking to obtain an effect other than the maximization of financial return to the client;

5 (2) "Investment adviser", the same meaning as under section 409.1-102;

6 (3) "Investment adviser representative", the same meaning as under section  
7 409.1-102;

8 (4) "Nonfinancial objective", the material fact to consider criteria in the  
9 investment or commitment of client funds for the purpose of seeking to obtain an effect  
10 other than the maximization of financial return to the client;

11 (5) "Socially responsible criteria", any criterion that is intended to further, or is  
12 branded, advertised, or otherwise publicly described by the investment adviser or  
13 investment adviser representative, as furthering any of the following:

14 (a) International, domestic, or industry agreements relating to environmental or  
15 social goals;

16 (b) Corporate governance structures based on social characteristics; or

17 (c) Social or environmental goals.

18 2. If an investment adviser or investment adviser representative incorporates a  
19 social objective or other nonfinancial objective into a discretionary investment decision  
20 to buy or sell a security or commodity for a client, advice or a recommendation to a  
21 client for the purchase or sale of a security or commodity, or the selection, or advice or a  
22 recommendation to a client regarding the selection, of a third-party manager or  
23 subadviser to manage the investments in the client's account such investment adviser or  
24 investment adviser representative shall disclose to such client the existence of such  
25 incorporation.

26           **3. The disclosure obligation under subsection 2 of this section is satisfied by**  
27 **providing clear and conspicuous prior disclosure and obtaining written consent and**  
28 **acknowledgment from the client. Written consent shall be obtained either:**

29           **(1) At the establishment of the advisory relationship; or**

30           **(2) Prior to:**

31           **(a) Effecting the initial discretionary investment for the client's account;**

32           **(b) Providing the initial recommendation or advice regarding the purchase or**  
33 **sale of a security or commodity in a client's account; or**

34           **(c) Selecting, or recommending or advising on the selection, of a third-party**  
35 **manager or subadviser to manage the investments in a client's account;**

36           **(3) Thereafter, the disclosure shall be provided to the client on an annual basis,**  
37 **and no less than every three years, the client shall consent to the disclosure in writing.**

38           **4. (1) Written consent required under subsection 3 of this section shall be**  
39 **satisfied by language that is substantially similar to the following:**

40           **"I, (NAME OF CLIENT), consent to (as applicable, NAME OF INVESTMENT**  
41 **ADVISER OR INVESTMENT ADVISER REPRESENTATIVE) incorporating a social**  
42 **objective or other nonfinancial objective into any discretionary investment decision my**  
43 **(as applicable, investment adviser or investment adviser representative) makes for my**  
44 **account; any recommendation or advice my (as applicable, investment adviser or**  
45 **investment adviser representative) makes to me for the purchase or sale of a security or**  
46 **commodity; or the selection my (as applicable, investment adviser or investment adviser**  
47 **representative) makes, or recommendation or advice my (as applicable, investment**  
48 **adviser or investment adviser representative) makes to me regarding the selection, of a**  
49 **third-party manager or subadviser to manage the investments in my account. Also, I**  
50 **acknowledge and understand that incorporating a social objective or other nonfinancial**  
51 **objective into discretionary investment decisions, recommendations, advice, or the**  
52 **selection of a third-party manager or subadviser to manage the investments, in regards**  
53 **to my account, will result in investments and recommendations or advice that are not**  
54 **solely focused on maximizing a financial return for me or my account."**

55           **(2) The language in subdivision (1) of this subsection is not exhaustive of the**  
56 **form or manner in which written consent required under subsection 3 of this section**  
57 **may be obtained.**

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