

**OFFICE OF THE TREASURER**

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**POLICY OF THE CALIFORNIA STATE TREASURER'S OFFICE**

(Effective July 25, 2002)

In another troubling example of the current breakdown in U.S. corporate responsibility, publicly-held U.S. corporations are relocating, on paper only, to offshore tax havens such as Bermuda and the Cayman Islands. The U.S. Treasury Department has noted that "there has been a marked increase recently in the frequency, size, and profile of" these offshore relocations, also known as "expatriations." These paper relocations enable corporations to avoid payment of U.S. taxes and to skirt legal protections for investors, while still reaping the benefits of ostensibly operating as U.S. companies. A list of publicly-held U.S. corporations identified as having expatriated is attached.

In addition to evading taxes, publicly-held corporations that expatriate may avoid accountability by operating in secrecy, restricting shareholder rights, and insulating themselves from investor claims. For example, it is much more difficult for shareholders to file suits to enforce their rights in tax haven countries. U.S. corporate expatriation is part of a larger pattern of corporate deception and lack of integrity that has plagued the financial markets and jeopardized the long-term interests of investors and shareholders.

The Treasurer is concerned that this trend will continue to accelerate unless strong action is taken. This policy is designed to help stem future relocations and to address the concerns raised by U.S. corporate expatriation. The policy is consistent with the Treasurer's other recent actions designed to protect investors and taxpayers.

**Investments In Publicly-Held U.S. Corporations That Expatriate**

- The Treasurer oversees the investment of the California Pooled Money Investment Account (PMIA) – which is comprised of over \$45 billion in funds of the State government and over 3,000 local jurisdictions. Over \$10 billion of those funds are currently invested in corporate securities. California law provides that PMIA investments must be in companies organized and operating in the U.S. The Treasurer has determined that companies that are organized and operating in the U.S. at the time they were approved for PMIA investment, but that have since expatriated, will no longer be eligible for investment. Accordingly, the Treasurer has deleted, effective immediately, Ingersoll-Rand Company

from the approved PMIA investment list and will delete any other publicly-held corporations that expatriate.

- The Treasurer will request that CalPERS and CalSTRS eliminate from their portfolios all public equity and fixed income holdings in publicly-held U.S. corporations that have expatriated or do so in the future. In addition, the Treasurer will recommend that CalPERS and CalSTRS adopt policies to cast their shareholder votes against any such expatriations by corporations in which they hold stock or other securities.

**Contracts or Other Business With  
Publicly-Held U.S. Corporations That Expatriate**

- Effective immediately, the State Treasurer's Office will not contract or otherwise do business – absent a compelling public interest – with publicly-held U.S. corporations that have expatriated or do so in the future. This policy will, subject to the requisite ratification, also apply to all boards, commissions, and authorities that the Treasurer chairs. The Treasurer will urge CalPERS and CalSTRS to adopt the same policy.

This policy is designed to ensure that companies with which the State Treasurer's Office does business meet threshold standards of corporate accountability. In this respect, this policy is similar to the recently-adopted Investment Protection Principles, which set standards for investment banks doing business with the State Treasurer's Office.

- If, by December 31, 2002, the federal government does not pass legislation that protects shareholders and those who do business with corporations that expatriate, the Treasurer will seek to introduce California State legislation prohibiting the State of California from contracting or doing business with publicly-held U.S. corporations that have expatriated or do so in the future.

Concurrent with the adoption of this policy, Congress is considering actions to address the issues raised by expatriation of publicly-held U.S. corporations. This policy will be reevaluated in light of any federal actions that may be taken to resolve the issues raised by such expatriations.