

**HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM  
ETHICS POLICY**

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## **Code of Ethics**

Trustees of the Houston Municipal Employees Pension System (“HMEPS”) shall:

- 1) Act with integrity, competence, dignity, and in an ethical manner when dealing with participants, the public, employees, vendors, and fellow members.
- 2) Abide by all state and federal laws and statutes.
- 3) Perform their fiduciary duties without financial compensation.
- 4) Practice and encourage others to practice in a professional and ethical manner.
- 5) Strive to maintain and improve one’s competence and the competence of other HMEPS staff and Trustees.
- 6) Use reasonable care and prudence.
- 7) Exercise independent professional judgment.
- 8) Remain independent from conflicts of interest.

## **Purpose and Scope**

The purpose of this policy is to ensure the integrity of all Houston Municipal Employees Pension System (“HMEPS” or “System”) investment and administrative transactions and conformity with the highest fiduciary, ethical, and legal standards by Trustees and staff. All investment decisions made by the Board and the staff must be based solely on the merits in conformity with fiduciary standards and applicable law. All investment decisions and recommendations must be free of impropriety or improper influence and the appearance of either.

The System is charged by the Texas Constitution and state law with the administration of pension assets held in trust for the beneficiaries of the HMEPS trust fund. Trustees have the responsibilities for honesty and integrity, including the standards of conduct described in Vernon’s Texas Civil Statutes, Article 6243h, as amended (“Pension Statute”), and the rules adopted by the Board of Trustees.

The purpose of this document is to outline the specific standards of conduct expected of HMEPS Trustees, and of System employees and consultants where applicable. Many of the provisions described in this document are based upon legal and fiduciary precepts; however, the Policy should not be interpreted as one that outlines the complete and exclusive legal and fiduciary responsibilities of the Trustees. This Policy will not supersede any applicable federal or state law or administrative rule. Adherence to this Policy will allow Trustees to meet their fiduciary obligations, build trust and confidence in other Trustees, and comply with statutory mandates.

The Board of Trustees for HMEPS is vested with the general administration, management and responsibility for the proper and effective operation of the Pension System. The Executive Director is the Plan Administrator responsible for the day to day management of the operations of HMEPS. Staff has been delegated the responsibilities outlined in the Investment Policy Statement. In performance of these obligations, the Board of Trustees is obligated to administer the HMEPS Fund in accordance with the Pension Statute.

The HMEPS Ethics Policy provides standards of conduct relating to the management and investment of the fund.

## **HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM ETHICS POLICY**

### **100 Introduction**

**100.01** The Board of Trustees (“Board” or “Trustees”) of HMEPS is obligated to administer its pension system as a trust fund solely in the interest of the participants and beneficiaries. In performance of this obligation, the Board is required to administer HMEPS in accordance with Chapter 802, Title 8 of the Texas Government Code (§802.203 is attached as Attachment I) and other applicable state and federal laws and regulations.

**100.02** In furtherance of these obligations, the Board adopts the following Ethics Policy, which shall be applicable to all System Representatives. By adopting this Ethics Policy all System Representatives agree to act with integrity, competence, dignity, and in an ethical manner when dealing with the public, participants, prospects, employers, employees and fellow System Representatives.

**100.03** Trustees and Staff are required to maintain knowledge of and comply with this Policy and all HMEPS policies and procedures and all applicable laws, rules, regulations of any government, governmental agency, regulatory organization, licensing agency, or professional association governing the person’s professional activities.

**100.04** Trustees and Staff should not knowingly participate or assist in any violation of such policy, procedures, laws, rules or regulations.

### **101 Definitions**

**101.01 Benefit** –anything reasonably regarded as economic gain or advantage, including benefit to any other person in whose welfare the beneficiary is interested. This does not include acceptance of food, lodging, transportation, or entertainment that is accepted as a guest, unless expressly included by applicable law.

**101.02 Consultants** – independent contractors, (whether individuals, partnerships, corporations or other organizations) which provide legal, economic, investment, actuarial or other advice to the Trustees or staff to be used in the performance of fiduciary functions. Any limitations or obligations apply to the individuals involved and the contracting organization, if any.

**101.03 Fiduciary** – any person who (1) exercises any discretionary control over the management of HMEPS or any authority or control over the management or disposition of its assets, (2) renders investment advice for a fee or other compensation, direct or indirect, with respect to any moneys or other property of HMEPS or has any authority or discretionary responsibility to do so, (3) has any discretionary authority or discretionary responsibility in the administration of

HMEPS, or (4) has been designated by the Trustees as a fiduciary in the performance of certain duties for HMEPS.

**101.04 Gift** – anything of tangible value given without adequate consideration and shall include, but not be limited to any payment of cash, or receipt of goods or services. Meals, refreshments and entertainment are usually considered as intangibles and are dealt with separately in this Policy. This does not include acceptance of food, lodging, transportation, or entertainment that is accepted as a guest, unless expressly included by applicable law (See examples in Section 110 of this Policy.)

**101.05 Key Staff** – Executive Director, Chief Investment Officer, General Counsel, Director of Administration, Investment Manager and Financial Analyst. For purposes of this Policy, the Executive Director may designate one or more other HMEPS employees as Key Staff as reasonably determined by the Executive Director.

**101.06 System Representative** – Trustees and Key Staff of HMEPS.

**101.07 Third Party** - means and includes a person or entity that is seeking action, opportunity or a specific outcome from the System regarding a System matter. The third party may be seeking the action, opportunity or outcome for his or her or its own behalf or the third party may be seeking it on behalf of another person or entity in the capacity of a representative, agent or intermediary, or as an advocate for a cause or group of individuals or entities. This definition includes public officials.

**101.08 Trustee** – includes both persons serving as Trustees of HMEPS and persons who are candidates for the position of HMEPS Trustee.

**101.09 Undue Influence** - the employment of any improper or wrongful pressure, scheme or threat by which one's will is overcome and he or she is induced to do or not to do an act which he or she would not do, or would do, if left to act freely.

**101.10 Vendors** – independent contractors, whether individuals, partnerships, corporations or other organizations which perform services for HMEPS for direct or indirect compensation. Services include, but are not limited to, custodianship of funds, management of investments and maintenance of official records and provision of professional advice.

## 102 Standards of Conduct

The following legal standards of conduct apply to all Trustees.

A Trustee shall not:

- A. solicit, accept or agree to accept any gift, favor, or service that might reasonably tend to influence the Trustee in the discharge of official duties or that the Trustee knows or should know is being offered with the intent to influence the Trustee's official conduct.
- B. solicit, accept, or agree to accept any benefit from a person the Trustee knows is interested in or likely to become interested in any contract, purchase, payment, claim, or transaction involving the exercise of the Trustee's discretion.
- C. solicit, accept, or agree to accept any benefit from a person the Trustee knows is interested in or likely to become interested in any matter before the Trustee or Board.
- D. solicit, accept, or agree to accept any benefit for having exercised the Trustee's official powers or performed the Trustee's official duties in favor of another.
- E. accept other employment or compensation or engage in a business or professional activity that could reasonably be expected to impair the Trustee's independence of judgment in the performance of the Trustee's official duties; or that might reasonably be expected to require or induce the Trustee to disclose confidential information acquired by reason of the official position.
- F. make personal investments that could reasonably be expected to create a substantial conflict between the Trustee's private interest and the public interest (this does not include investments in publicly traded index funds or mutual funds where the Trustee has no control over the selection of holdings).
- G. use official position for financial gain, obtaining privileges, or avoiding consequence of illegal acts.
- H. have any direct or indirect pecuniary interest in a contract entered into by HMEPS other than an interest incidental to the Trustee's membership in a large class such as that of participants in the System's pension or benefit plans (this does not include investments in publicly traded index funds or mutual funds where the Trustee has no control over the selection of holdings).

## 103 Fiduciary Duties

**103.01** Under Texas State statutes and applicable federal law and regulations, the System is a trust fund to be administered solely in the interest of the participants and beneficiaries thereof,

for the exclusive purpose of providing benefits to participants and beneficiaries, and to defray reasonable expenses of HMEPS.

**103.02** In the performance of these duties, all Trustees and investment managers of HMEPS are subject to the "prudent expert" rule which requires that they exercise their duties with the care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with matters of the type would use in the conduct of an enterprise with a like character and like aims. Further, all fiduciaries of HMEPS shall maintain high ethical and moral character both professionally and personally, such that the conduct of all fiduciaries shall not reflect negatively upon the Board or HMEPS.

**103.03** In making or participating in decisions, the fiduciaries of HMEPS shall give appropriate consideration to those facts and circumstances reasonably available to the fiduciary which are relevant to the particular decision, and shall refrain from using facts or circumstances which are not relevant to the decision.

**103.04** Investment decisions of the fiduciaries must be made in accordance with the approved Investment Policy Statement of the System with consideration being given to the opportunity for gain and the risk of loss. Trustees must advise and undertake appropriate diversification of investments.

**103.05** As a fiduciary, each HMEPS Trustee shall adhere to the following:

- A. A Trustee's loyalty must be to the members, beneficiaries, and participants of HMEPS system, and not to the source of his or her appointment. A Trustee must exercise care and caution always to place the interest of trust participants ahead of the Trustee's own interest.
- B. All members, beneficiaries, and participants of HMEPS are to be treated equally and fairly. A Trustee's duty is to the members, beneficiaries, and participants of HMEPS as a group, and not to individuals or groups of individuals.
- C. A Trustee has a duty to be informed so as to be familiar with applicable state and federal laws and other matters relating to his or her duties as a HMEPS Trustee. A Trustee is obligated to take advantage of educational opportunities so as to be properly informed.
- D. A Trustee shall strive to understand and work towards HMEPS objectives.
- E. A Trustee must possess the ability and willingness to dedicate the time required to satisfy the duties of serving as a fiduciary. This includes but is not limited to possessing a complete understanding of the obligations and duty to act in accordance with plan documents, as well as having a substantive base of knowledge that contributes to sufficient analysis of staff and other professionals' recommendations and fulfillment of fiduciary obligations. A Trustee is responsible for preparing him or herself for Board work, including committee meetings.

- F. A Trustee shall treat executive session and closed meeting information as confidential.
- G. A Trustee shall not give, disclose or provide access to any confidential information owned, obtained, or developed by HMEPS.
- H. Trustees must delegate duties, when appropriate, to prudently select, instruct, and monitor all vendors and agents.
- I. A Trustee must refrain from prohibited and conflicted actions. Independent judgment must not be jeopardized. A Trustee must avoid all actions that create an appearance of bias. This includes avoiding all conflicts of interest, refraining from any self-dealing, and refusing any remuneration that reasonably could be expected to affect a Trustee's loyalty.

**103.06** No System Representative shall knowingly or negligently participate in the breach of fiduciary duty by another fiduciary of the System, participate in concealing such breach, or knowingly or negligently permit such breach to occur. It is the responsibility of each System Representative to immediately disclose the discovery of a breach to the Executive Director. It is the responsibility of the Executive Director to disclose the discovery to the Chairman for appropriate action.

## **104 Conflicts of Interest**

**104.01** A Trustee shall report to the Executive Director any business relationship with a current or prospective vendor on a signed document upon establishment of such relationship if the Trustee knows or should know that the person or entity is a vendor for HMEPS.<sup>1</sup> An affidavit form of report is attached hereto as Attachment II.

**104.02** For investments, the following shall be required:

- A. **Reports:** For public market and consultant searches, the Executive Director shall provide each Trustee and Key Staff in writing the name(s) of the manager or consultant candidate(s) that have been identified as semi-finalists for presentation to the Board or Investment Committee for hiring within a reasonable period of time after the candidate(s) have been identified. For private market searches, the Executive Director shall provide each Trustee and Key Staff in writing the name(s) of the fund(s) that have been identified for presentation to the Board or Investment Committee for investing within a reasonable period of time after the fund(s) have been identified. If a Trustee or Key Staff has a business relationship or potential conflict of interest with respect to any of the identified candidates or funds, such Trustee or Key Staff must submit a signed and dated report within 5 business days of receiving the names (but no less than 2 business days prior to the meeting at which the hiring or investment decision will be made if within the 5 business day period) that discloses that the Trustee or Key Staff has a business

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<sup>1</sup> Chapter 176, Texas Local Gov't Code.

relationship or potential conflict of interest with respect to the identified candidate or fund. The report shall be substantially in the form set forth in Attachment II.

- B. **No Contact Period:** During the evaluation of any prospective investment transaction where the investment manager or fund candidates have been identified to the Trustees or of any prospective investment consulting relationship where the consultant candidates have been identified to the Trustees as provided in subsection (A) of this section, no candidate may knowingly communicate with any Trustee concerning any matter relating to the transaction or its evaluation, and no Trustee may knowingly communicate with such candidate concerning any matter relating to the transaction or its evaluation. This does not apply to communications that: (1) are part of a noticed Board or committee meeting; (2) are conducted as part of an HMEPS staff-scheduled due diligence meeting; (3) are incidental, exclusively social, and do not involve HMEPS or its business, or the Trustee's role as an HMEPS official; or (4) do not involve HMEPS or its business and that are within the scope of the Trustee's private business or public office wholly unrelated to HMEPS.
- C. **Additional Restrictions:** Trustees and Key Staff cannot accept from a candidate any gift, meal, lodging, transportation or entertainment other than working lunches and ground transportation for HMEPS staff-scheduled due diligence meetings. A candidate cannot provide a Trustee or Key Staff with any gift, meal, lodging, transportation or entertainment other than working lunches and ground transportation for HMEPS Staff-scheduled due diligence meetings.
- D. A Trustee who submits a report as provided in subsection (A) of this section must not deliberate and must abstain from voting on any matter involving the public or private market investment, or consultant transaction that is covered by the report.
- E. Any candidate or fund, including any officer or employee of the candidate or fund, who willfully violates this policy will be disqualified from any further consideration to provide the applicable service or investment. Trustees and staff should report in writing any suspected violation of this policy to the Executive Director, who will notify the Chairman.
- F. Any Trustee who participates in a communication subject to this Policy has the obligation to disclose the communication to the Executive Director prior to the Board's action on the prospective transaction. The disclosure must be in writing and disclose the date and location of the communication and the substance of the matters discussed. The disclosure must be submitted no later than 5 business days prior to the noticed Board or committee meeting at which the investment transaction is being considered, unless the communication occurs less than five business days before the noticed Board or committee meeting, in which case the writing must be submitted immediately after the communication occurs. The communications disclosed under this section will be made public at the open meeting in which the transaction is considered prior to the consideration of the transaction.

- G. An alleged failure of a Trustee to disclose communications as required herein will be referred to the Chairman for appropriate action.
- H. The General Counsel will provide the Board with an annual summary of the communications disclosed pursuant to this section.

**104.03** If a Trustee is uncertain whether he or she has or would have a conflict of interest, or if a Trustee is uncertain whether the common-law or statutory law prohibits the Trustee from having a direct or indirect interest or relationship, the Trustee should promptly inform the Executive Director, who, with the assistance of General Counsel, shall evaluate whether a conflict of interest or legal or statutory infraction exists or would exist under the circumstances presented. If a conflict is determined to exist, the Trustee must make a disclosure to the Board, and take steps to remedy the conflict. The Board has the authority to determine whether conflicts are resolved. Unresolved conflicts will be reported to the Board until they are resolved.

**104.04** A Trustee shall not in any manner represent the City or any other outside party in any capacity with respect to HMEPS pension issues and benefits.<sup>2</sup>

**104.05** A Trustee shall not in any manner negotiate on behalf of the City for agreements regarding HMEPS pension issues and benefits.<sup>3</sup>

**104.06** A Trustee shall not lobby against legislative or “meet and confer” proposals pertaining to HMEPS pension issues and benefits that have been duly approved by the Board or an authorized committee of the Board.<sup>4</sup>

**104.07** A Trustee shall not disclose any information deemed confidential by HMEPS, including information pertaining to any pending or anticipated agreements with the City regarding pension issues and benefits.<sup>5</sup>

**104.08** Other than as a participant or beneficiary in HMEPS, a Trustee may have no conflict of interest during such Trustee’s tenure on the Board and for one year after tenure ends, such that a Trustee shall comply with the provisions of this Policy during such Trustee’s tenure, and a Trustee shall not, during such Trustee’s tenure on the Board and for one year after leaving the Board, represent any other person or organization in any formal or informal appearance before the Board or HMEPS staff concerning a matter for which the person has or had responsibility as a Trustee.<sup>6</sup>

**104.09** Nothing in this statement shall exempt any Trustee or staff from applicable provisions of any other laws. The standards of conduct set forth in this statement are in addition to those prescribed elsewhere in this policy and in applicable laws and rules.

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<sup>2</sup> HMEPS Trustee Manual, §20.01.

<sup>3</sup> HMEPS Trustee Manual, §20.02.

<sup>4</sup> HMEPS Trustee Manual, §20.03.

<sup>5</sup> HMEPS Trustee Manual, §20.04.

<sup>6</sup> Second Amendment to Meet and Confer Agreement, §3(b).

## **105 Prohibited Transactions**

**105.01** No System Representative shall knowingly or negligently engage in the purchase, sale, or exchange of any direct investment with the System if that person holds an interest in the investment.

**105.02** No System Representative shall use their position with the System to solicit business for their own account or the account of an immediate relative or business associate.

**105.03** Acceptance by a System Representative of any "favor" or complimentary work or analysis, offered or performed by a current or prospective contractor or service vendor of the System, intended to benefit personally the involved System Representative is prohibited.

### **105.04 Ban on Placement Agent Services**

No current Trustee or employee may serve as a placement agent in connection with any System investment. A former Trustee or employee is prohibited from serving as a placement agent in connection with any System investment for a period of one (1) year after Trustee service or employment ends. A *Placement Agent* is any person or entity hired, engaged or retained by or acting on behalf of an external investment manager or investment fund or on behalf of another placement agent as a finder, solicitor, marketer, consultant, broker or other intermediary to raise money or investments from or to obtain access to the System, directly or indirectly.

### **105.05 Prohibition on Insider Trading<sup>7</sup>**

- A. Trustees and staff may be provided or have access to confidential information, including material, nonpublic information. Any information not publicly available must be treated as confidential even if it is not designated as confidential. It is the duty of Trustees and staff to maintain the confidentiality of information and to not misuse confidential information, including material, nonpublic information, belonging to or relating to the System. Trustees and staff who come into possession of material, nonpublic information must not communicate it intentionally or inadvertently to any third party, including but not limited to relatives and friends, unless the person has a need to know for legitimate reasons in keeping with their responsibilities to the System. Special care should be taken so that confidential information is not disclosed inadvertently. Trustees and staff in possession of material, nonpublic information may not purchase or sell securities of the concerned company or other publicly traded securities to which the information pertains. Recommending purchases or sales of securities to which the material nonpublic information relates, even without disclosing the basis for the recommendation, is prohibited.
- B. Trustees and Key Staff in possession of material, nonpublic information relating to a tender offer, acquired directly or indirectly from the bidder or target company, may not trade in target company securities. Trustees and staff also may not disclose such material, nonpublic information to another person. Trustees and staff in possession of

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<sup>7</sup> AFSCME Best Practice Policies for Trustees and Pension Systems, Ethical and Fiduciary Conduct, Part C.

material, nonpublic information may not purchase, directly or indirectly, any security in the initial public offering of such security. Trustees and staff also may not encourage, facilitate or arrange such a purchase by or on behalf of any other person.

- C. If a Trustee is uncertain whether or not a transaction in a security violates Federal or State laws regarding Insider Trading, the Trustee should consult his or her personal legal counsel.
- D. Trustees are prohibited from “Front Running.” Front Running involves entering into a trade while taking advantage of advance knowledge of pending orders from other investors. Like Insider Trading, Front Running may subject HMEPS and/or its Trustees to criminal and/or civil proceedings that may result in jail time, penalties, and sanctions. In addition to a violation of this Policy, Front Running may be a violation of the individual’s fiduciary duties, state law and/or federal law. Further, Front Running may constitute a misappropriation of proprietary information for private or personal gain.
- E. Trustees and staff should report any suspected violation of this section of the Policy to the Executive Director. The Executive Director is responsible for causing an investigation by the General Counsel, with the assistance of outside counsel as reasonably determined by the General Counsel, of any reported violation. The General Counsel shall report the results of the investigation to the Executive Director. If the Executive Director concludes that an HMEPS staff member has violated the policy, the Executive Director shall take appropriate action, which may include, without limitation, disciplinary action, including dismissal or other sanction. Any disciplinary action for violation of the policy may be in addition to any civil or criminal liability under federal and state securities laws and regulations and is not subject to appeal on the grounds that the violation did not ultimately result in any actual civil or criminal investigation or other legal proceeding. If a Trustee is a subject of the investigation, the Executive Director will provide the results of the investigation to the Chairman for action pursuant to Section 112.

**105.06** No System Representative shall knowingly or negligently cause the System to engage in any of the prohibited transactions listed above with any immediate relative or business associate of the System Representative, any other Trustee, Employee, Vendor or Consultant to the System, any other fiduciary of the System, any person providing services to the System, any employee organization whose members are covered by the System, or its officials and employees.

## **106 External Communications**

### **106.01 HMEPS Spokesperson**

- A. The general spokesperson for HMEPS is the Executive Director or his or her designee.
- B. The HMEPS spokesperson is authorized to respond to legitimate inquiries by relaying any policy officially adopted by the Board, Board investment policies and practices, and general administrative and benefits issues.

### **106.02 Trustee Communications**

- A. A Trustee shall not publish any writing or make any statement to the media, to City administrators, legislative personnel or members of the public that purports to represent the System's position or policy on any matter or subject, before the Board has formally adopted a policy or position on the matter or subject. This section shall not be interpreted to preclude Trustees, as private citizens, from expressing their personal views provided the Trustee clearly states that the views are his or her own and not those of the Board or System. Trustees should encourage media representatives to confirm factual matters with the HMEPS spokesperson.
- B. A Trustee shall not have any communication outside of a properly noticed Board or committee meeting on the merits of a Board administrative action or appeal with any interested party or their attorney.
- C. All Board contacts with outside parties, in which HMEPS policies and practices are discussed, should be conducted in accordance with the intent of this policy.

## **107 Gifts, Travel and Expenses**

**107.01** System Representatives shall not solicit any benefit from any source which is a current or prospective Vendor or Consultant of the System. It is the policy of the Board that all Trustees and Key Staff of the System be careful about accepting any gifts from any other source, particularly those sources which are current or prospective vendors or consultants of the System.

**107.02** Return of gift. Any gift, the receipt of which is prohibited by this policy, shall be returned to its source whenever possible or donated to a suitable charity upon its receipt.

**107.03** Receipt of gifts through intermediaries. No System Representative shall receive any gift through an intermediary, if the person knows, or has reason to know, that the gift has originated from another source.

**107.04** Anonymous gifts. In no event shall any System Representative accept a gift, if the source of the gift is not identified. If the source of any gift cannot be ascertained, the gift shall be donated to a suitable charitable organization.

**107.05** Cash Gifts. Under no circumstances shall a Trustee or employee accept a cash gift.

**107.06** Expenses related to new business. In no event shall any System Representative accept any expenses related to travel, other than working meals or ground transportation, the purpose of which is to determine the selection of new vendors or to determine the assignment of continuing or additional business to existing vendors.

**107.07** Gifts of edibles to System office. If edible products are sent to the System office by a current or prospective consultant or vendor, the products may be placed in a publicly accessible area for general consumption.

**107.08** A Trustee who is also a City of Houston employee or contractor is responsible for knowing and complying with City of Houston policies or rules with respect to gifts or benefits.

## **108 Undue Influence**

**108.01** Individual Trustees shall refer all proposals or other communications regarding potential or existing investments or other contracts or services directly to the Executive Director or his or her designee.

### **108.02 Disclosure of Communications Between Trustees and Staff Regarding Investment Transactions<sup>8</sup>**

As a general matter, the Board recognizes that the free flow of communication between individual Trustees and staff or consultants is beneficial to the conduct of System business, and that requiring disclosure of all or a large part of such regular communication would create a burdensome reporting requirement that likely would serve no useful purpose. However, in those instances where conduct by an individual Trustee reasonably can be interpreted as an attempt to influence the outcome of a Board or staff decision or consultant recommendation in an investment transaction, the Board recognizes that such communications could create the potential for misunderstanding, misinformation or conflicting instructions and reasonably could be interpreted as inappropriately affecting the Board, staff or consultant. Such communications do not always rise to the level of “undue influence,” but nevertheless should be subject to disclosure. Any communication regarding a potential investment transaction initiated by a Trustee with either a System employee or consultant in which the Trustee is advocating for a specified outcome must be documented by the employee or consultant and reported to the Executive Director. The Executive Director will notify the Chairman of such communications for appropriate action.

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<sup>8</sup> AFSCME Best Practice Policies for Trustees and Pension Systems., Ethical and Fiduciary Conduct, Part H.

### **108.03 Avoidance of Undue Influence<sup>9</sup>**

The Board recognizes that if a Trustee or a third party attempts to direct staff or a Trustee to a specified action, decision or course of conduct through the use of undue influence, sound decision-making could be compromised to the ultimate detriment of the Board as a whole and/or System participants. Any staff member or Trustee who thinks he or she has been subject to the attempted exercise of undue influence, as described above, should report the occurrence immediately to the Executive Director. The Executive Director is responsible for causing an investigation by the General Counsel, with the assistance of outside counsel as reasonably determined by the General Counsel. The General Counsel shall report the results of the investigation to the Executive Director. If a Trustee is a subject of the investigation, the Executive Director will provide the results of the investigation to the Chairman for appropriate action. If the Executive Director or General Counsel thinks he or she personally has been subjected to an attempted exercise of undue influence, he or she must immediately advise the Chairman, unless the circumstances dictate that another Trustee should instead be notified. The Chairman or other Trustee will investigate the situation with the assistance of outside counsel and report to the Board to take appropriate action.

### **109 General Provisions**

**109.01** Adherence to any and all other applicable laws. Nothing in this policy shall excuse any Trustee, officer, or employee from any other restrictions of state or federal law concerning conflicts of interest and fiduciary duties, including but not limited to Chapters 171 and 176, Tex. Local Gov't Code, as amended (Attachment III), and the Securities and Exchange Commission "Pay to Play" Regulations, Rule 206(4)-5.<sup>10</sup>

**109.02** Violation of this policy will result in corrective action, up to and including termination of contract or relationship with HMEPS, discipline or initiation of removal action pursuant to any and all applicable laws.

### **110 Examples of Situations That Do or Do Not Involve a Gift or Benefit**

#### **110.01 No Gift or Benefit (except as expressly required by applicable law)**

- A. A Vendor (not currently in a search) invites a System Representative to attend a sporting event at no cost to the System Representative. The Vendor and the System Representative both attend the event. Because the Vendor accompanies the System Representative to this event, no gift or benefit is provided.
- B. A Vendor (not currently in a search) invites several System Representatives to a dinner at a restaurant. The Vendor and the System Representatives attend the dinner. Because the

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<sup>9</sup> AFSCME Best Practice Policies for Trustees and Pension Systems., Ethical and Fiduciary Conduct, Part H.

<sup>10</sup> <http://www.sec.gov/rules/final/2010/ia-3043.pdf>.

Vendor accompanies the System Representatives to the dinner, no gift or benefit is provided.

- C. While attending a conference, a System Representative attends a reception sponsored and attended by Vendors (none of which currently are in a search). Because the reception is widely attended and the Vendors are present, no gift or benefit is provided.
- D. While attending a conference a System Representative and all other attendees of the conference receive a bag with various gifts and the aggregate value of the gifts is under \$250 (including taxes). Whether there is a gift or benefit under this policy, and whether it must be reported under Chapter 176, Tex. Local Gov't Code, depends on whether the gifts are from a specific vendor or prospective vendor and whether that vendor has provided other gifts within the preceding 12-month period that would, in the aggregate, exceed \$250.
- E. While attending a conference, a System Representative and all other attendees of the conference receive an item such as a shirt/sweater or briefcase type bag with the vendor's name on it. Because items with vendors' logos and/or company name generally are advertising and do not have retail value, no gift or benefit is provided.
- F. A System Representative attends a conference as a speaker and in return the conference pays for transportation, meals and lodging. This is an honorarium and no gift or benefit is provided.

#### **110.02 Gift or Benefit Provided (and Reporting Required in Certain Situations)**

- A. A Vendor (not currently in a search) invites a System Representative to attend a sporting event at no cost to the System Representative. The Vendor does not attend the event with the System Representative. Because the Vendor does not accompany the System Representative to this event, a gift or benefit is provided. If the value of the tickets and refreshments exceeds \$250, both the Vendor and the System Representative must report the value of the event under Chapter 176, Tex. Local Gov't Code.
- B. A System Representative, while attending a conference, wins a raffle sponsored by the conference. The prize is \$25 cash. The System Representative may not accept the cash.
- C. A System Representative, during the Christmas Holidays, receives a pen and pencil set from a Vendor. The value of the set is obviously over \$250 (including taxes), and therefore the System Representative and the Vendor must report the gift under Chapter 176, Tex. Local Gov't Code.
- D. A System Representative participates in a golf outing as a guest of a current vendor and in a door prize drawing sponsored by the vendor, receives a golf club valued at \$300. No gift or benefit is provided with respect to the golf outing because it is entertainment accepted as a guest. Because the golf club is valued at \$300, it must be reported under Chapter 176, Tex. Local Gov't Code.

## **111 Reports from Consultants**

**111.01** All System contracts with Investment Consultants will include a requirement that thereafter records will be maintained and filed annually with the System which reflect:

- A. Any finders fees, commissions or similar payments, made to anyone whomsoever as consideration for the placement of business with the consultant;
- B. Any gifts, food, lodging, transportation, or entertainment expense which does not conform with the minimum reporting limitation contained in this Policy for the recipient (See examples in Section 110 of this Policy.);
- C. Any direct or indirect benefit to a System Representative other than food, lodging, transportation, or entertainment provided as a guest;
- D. Any business relations (including, without limitation, "soft dollar" or "hard dollar" arrangements), that commenced, occurred or were in effect at any time since the last such report with any money managers investing assets of the System.
- E. The extent, amount and placement of any directed business, other than directed brokerage placed in accordance with a policy adopted by the Board which was in any way associated with the party's relationship with the System.

## **112 Enforcement**

**112.01** It is the duty of the Trustees and Key Staff to be aware of all provisions of this document and to abide by the letter and the spirit of this Policy. *Notwithstanding any provision of this Policy to the contrary, any written complaint of criminal activity shall be promptly referred to the County Prosecutor.*

**112.02** If the Executive Director is notified in writing of an alleged violation of this Policy, the Executive Director shall promptly notify the Chairman of the alleged violation. If the violation is alleged against a Trustee, the Chairman is authorized to call an ad hoc committee of four (4) Trustees who are not the subject of the allegation to review the alleged violation and make recommendations to the Chairman for resolution of the matter. If the Chairman is a subject of the alleged violation, the Executive Director shall promptly notify the Vice Chairman of the alleged violation. The Vice Chairman is authorized to call an ad hoc committee of four (4) Trustees who are not the subject of the allegation to review the alleged violation and make recommendations to the Vice Chairman for resolution of the matter.

**112.03** The Chairman (or Vice Chairman as applicable) shall have final decision-making authority with respect to Trustee violations of this Policy as provided in Section 112.04. The Executive Director shall have final decision-making authority with respect to staff violations of this Policy.

#### **112.04**

A. Available decisions for Trustee violations of this Policy are:

1. Require that the Trustee file disclosure or conflicts report(s) within a specified time period.
2. Require that the Trustee attend approved specialized training within a specified time period.
3. Removal of the Trustee from any Committee Chairman or Vice-Chairman role for a specified time period.
4. Removal of the Trustee from any Committee membership for a specified time period.

B. A decision under Section 112.04(A) is binding on the Trustee.

### **113 Ethics Training**

**113.01** A person elected or appointed to be a Trustee of the Board must complete a qualified Ethics training program approved by the Executive Director within 45 calendar days after election or appointment.

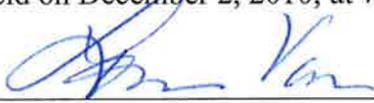
**113.02** Annually, each Trustee must attend, either online or in person, the HMEPS Ethics training program, or other ethics training program approved by the Executive Director.

### **114 Compliance**

**114.01** Trustees and Staff are required to file an annual form with the System acknowledging that they have read, understand and will comply with the provisions of this Ethics Policy.

**ADOPTION:**

The foregoing Ethics Policy was adopted at a meeting of the Board of Trustees duly called and held on December 2, 2010, at which a quorum was present and voting.



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Secretary, Board of Trustees

## **Attachment I**

The fiduciary responsibilities of a Trustee of a Public Retirement System in the state of Texas under Texas Government Code, Title 8, Section 802.203.

Sec. 802.203. FIDUCIARY RESPONSIBILITY. (a) In making and supervising investments of the reserve fund of a public retirement system, an investment manager or the governing body shall discharge its duties solely in the interest of the participants and beneficiaries:

(1) for the exclusive purposes of:

- (A) providing benefits to participants and their beneficiaries; and
- (B) defraying reasonable expenses of administering the system;

(2) with the care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with matters of the type would use in the conduct of an enterprise with a like character and like aims;

(3) by diversifying the investments of the system to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

(4) in accordance with the documents and instruments governing the system to the extent that the documents and instruments are consistent with this subchapter.

(b) In choosing and contracting for professional investment management services and in continuing the use of an investment manager, the governing body must act prudently and in the interest of the participants and beneficiaries of the public retirement system.

(c) A trustee is not liable for the acts or omissions of an investment manager appointed under Section 802.204, nor is a trustee obligated to invest or otherwise manage any asset of the system subject to management by the investment manager.

(d) An investment manager appointed under Section 802.204 shall acknowledge in writing the manager's fiduciary responsibilities to the fund the manager is appointed to serve.

(e) The investment standards provided by Subsection (a) and the policies, requirements, and restrictions adopted under Section 802.204(c) are the only standards, policies, or requirements for, or restrictions on, the investment of funds of a public retirement system by an investment manager or by a governing body during a 90-day interim between professional investment management services. Any other standard, policy, requirement, or restriction provided by law is suspended and not applicable during a time, and for 90 days after a time, in which an investment manager is responsible for investment of a reserve fund. If an investment manager has not begun managing investments of a reserve fund before the 91st day after the date of termination of the services of a previous investment manager, the standards, policies, requirements, and restrictions otherwise provided by law are applicable until the date professional investment management services are resumed.

**Attachment II**

Forms of Disclosure/Affidavit

**Houston Municipal Employees Pension System  
Conflict of Interest Disclosure Statement**

The Ethics Policy of the Houston Municipal Employees Pension System (HMEPS) requires any Trustee or Key Staff of HMEPS to disclose any family or business relationship, direct or indirect financial interest or other potential conflict of interest, or unauthorized communication, that he or she has or reasonably expects to have in any proposed or existing contract, transaction or arrangement with HMEPS, or in any other matter under consideration or to be considered by the Board of Trustees or any Board committee.

With respect to (name of vendor/potential vendor) \_\_\_\_\_,  
I am aware of the following family or business relationship, direct or indirect financial interest or other potential conflict of interest, or unauthorized communication that is required to be disclosed under the Ethics Policy (you may attach a letter providing complete details – reference this statement and the date of this statement in your letter):

I am completing this disclosure statement based on the HMEPS Ethics Policy and all definitions that are included therein.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Printed Name: \_\_\_\_\_

**AFFIDAVIT**

THE STATE OF TEXAS                    §

COUNTY OF HARRIS                    §

Before me, the undersigned authority, on this day personally appeared (Trustee Name) \_\_\_\_\_, duly sworn, deposes and says.

1. I, \_\_\_\_\_, am a trustee of the Houston Municipal Employees Pension System (“HMEPS” or the “System”) and a “local government official” under the provisions of Chapters 171 and 176 of the Texas Local Government Code (the “Code”).
  
2. I have disclosed to the System that I am an employee or consultant of \_\_\_\_\_ (the “Company”). My title or position at the Company is \_\_\_\_\_ and I perform services in the nature of \_\_\_\_\_.  
  
The compensation that I received as an employee of the Company exceeded 10% of my gross income for the previous year, and therefore, would constitute a “substantial business interest” as determined under Section 171.002 of the Code.
  
3. The System is considering a proposal from and/or entering into an agreement with the Company. Therefore, I am filing this affidavit with the System to comply with Section 171.004 of the Code, which requires that I file such affidavit before a vote or decision on any matter involving an entity in which I have a substantial business interest. In addition, I am filing this affidavit to comply with Section 3 of the Code of Ethics for the Board of Trustees of the System (the “Code of Ethics”), which requires

4. Upon filing this affidavit, I affirm that, in accordance with the Code of Ethics and Section 171.064(a) of the Code, I shall abstain from any discussion, vote or decision of the Board involving the Company and from any further participation in matters directly or indirectly involving the Company's dealings with the System and/or the Board. I will not take any action which would represent an actual or potential conflict of interest, or present the appearance of a conflict of interest, concerning my employment with the Company. In addition, if the Board votes on any budget item specifically dedicated to a contract with the Company, I will abstain from voting on such item in accordance with Section 171.005(a) of the Code and the Code of Ethics.
5. Pursuant to Section 20.05 of the System's Policies and Procedures Manual, I shall continue to actively avoid any conflict of interest during my tenure as a member of the Board and for one year after my tenure ends. I also affirm that I shall not, during my tenure or one year after the end thereof, represent the Company in any formal or informal appearance before the Board or HMEPS staff or represent any other person or organization before the Board or HMEPS staff concerning a matter for which I had responsibility as a Trustee.
6. In accordance with Section 3 and 4 of the Code of Ethics, I will not use my position to secure special privileges for the Company or participate in any manner in the sale or exchange of property between the Company and the System. I also affirm that in no way will I receive direct compensation from the Company as a result of the Company entering into any agreement with the System.

7. I acknowledge receipt from the Company of taxable income in excess of \$2,500 during the prior 12-month period. Accordingly, pursuant to Section 176.003 of the Code, I certify that I have filed a Local Government Officer Conflicts Disclosure Statement with the appropriate records administrator of the System.

SIGNED THIS \_\_\_\_ DAY OF \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
Name

THE STATE OF TEXAS §

COUNTY OF HARRIS §

Before me, the undersigned authority, on this day personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
NOTARY PUBLIC, STATE OF TEXAS

Commission Expires: \_\_\_\_\_

# LOCAL GOVERNMENT OFFICER CONFLICTS DISCLOSURE STATEMENT

## FORM CIS

(Instructions for completing and filing this form are provided on the next page.)

This questionnaire reflects changes made to the law by H.B. 1491, 80th Leg., Regular Session.

This is the notice to the appropriate local governmental entity that the following local government officer has become aware of facts that require the officer to file this statement in accordance with Chapter 176, Local Government Code.

### OFFICE USE ONLY

Date Received

**1** Name of Local Government Officer

**2** Office Held

**3** Name of person described by Sections 176.002(a) and 176.003(a), Local Government Code

**4** Description of the nature and extent of employment or other business relationship with person named in item 3

**5** List gifts accepted by the local government officer and any family member, excluding gifts described by Section 176.003(a-1), if aggregate value of the gifts accepted from person named in item 3 exceed \$250 during the 12-month period described by Section 176.003(a)(2)(B)

Date Gift Accepted \_\_\_\_\_ Description of Gift \_\_\_\_\_

Date Gift Accepted \_\_\_\_\_ Description of Gift \_\_\_\_\_

Date Gift Accepted \_\_\_\_\_ Description of Gift \_\_\_\_\_

(attach additional forms as necessary)

**6** AFFIDAVIT

I swear under penalty of perjury that the above statement is true and correct. I acknowledge that the disclosure applies to a family member (as defined by Section 176.001(2), Local Government Code) of this local government officer. I also acknowledge that this statement covers the 12-month period described by Section 176.003(a), Local Government Code.

\_\_\_\_\_  
Signature of Local Government Officer

AFFIX NOTARY STAMP / SEAL ABOVE

Sworn to and subscribed before me, by the said \_\_\_\_\_, this the \_\_\_\_\_ day  
of \_\_\_\_\_, 20 \_\_\_\_\_, to certify which, witness my hand and seal of office.

\_\_\_\_\_  
Signature of officer administering oath

\_\_\_\_\_  
Printed name of officer administering oath

\_\_\_\_\_  
Title of officer administering oath

## **LOCAL GOVERNMENT OFFICER CONFLICTS DISCLOSURE STATEMENT**

Section 176.003 of the Local Government Code requires certain local government officers to file this form. A "local government officer" is defined as a member of the governing body of a local governmental entity; a director, superintendent, administrator, president, or other person designated as the executive officer of the local governmental entity; or an employee of a local governmental entity with respect to whom the local governmental entity has, in accordance with Section 176.005, extended the requirements of Sections 176.003 and 176.004. This form is required to be filed with the records administrator of the local governmental entity not later than 5 p.m. on the seventh business day after the date on which the officer becomes aware of the facts that require the filing of this statement.

A local government officer commits an offense if the officer knowingly violates Section 176.003, Local Government Code. An offense under this section is a Class C misdemeanor.

Please refer to chapter 176 of the Local Government Code for detailed information regarding the requirement to file this form.

### **INSTRUCTIONS FOR COMPLETING THIS FORM**

*The following numbers correspond to the numbered boxes on the other side.*

- 1. Name of Local Government Officer.** Enter the name of the local government officer filing this statement.
- 2. Office Held.** Enter the name of the office held by the local government officer filing this statement.
- 3. Name of person described by Sections 176.002(a) and 176.003(a), Local Government Code.** Enter the name of the person described by Section 176.002, Local Government Code with whom the officer has an employment or other business relationship as described by Section 176.003(a), Local Government Code.
- 4. Description of the nature and extent of employment or business relationship with person named in item 3.** Describe the nature and extent of the employment or other business relationship with the person in item 3 as described by Section 176.003(a), Local Government Code.
- 5. List gifts accepted, excluding gifts described by Section 176.003(a-1), if aggregate value of the gifts accepted from person named in item 3 exceed \$250.** List gifts accepted during the 12-month period (described by Section 176.003(a), Local Government Code) by the local government officer or family member of the officer, excluding gifts described by Section 176.003(a-1), from the person named in item 3 that in the aggregate exceed \$250 in value.
- 6. Affidavit.** Signature of local government officer.

## **Attachment III**

Chapter 171 and 176

LOCAL GOVERNMENT CODE CHAPTER 171. REGULATION OF CONFLICTS OF INTEREST OF OFFICERS OF MUNICIPALITIES, COUNTIES, AND CERTAIN OTHER LOCAL GOVERNMENTS

LOCAL GOVERNMENT CODE

TITLE 5. MATTERS AFFECTING PUBLIC OFFICERS AND EMPLOYEES

SUBTITLE C. MATTERS AFFECTING PUBLIC OFFICERS AND EMPLOYEES OF MORE THAN ONE TYPE OF LOCAL GOVERNMENT

CHAPTER 171. REGULATION OF CONFLICTS OF INTEREST OF OFFICERS OF MUNICIPALITIES, COUNTIES, AND CERTAIN OTHER LOCAL GOVERNMENTS

Sec. 171.001. DEFINITIONS. In this chapter:

(1) "Local public official" means a member of the governing body or another officer, whether elected, appointed, paid, or unpaid, of any district (including a school district), county, municipality, precinct, central appraisal district, transit authority or district, or other local governmental entity who exercises responsibilities beyond those that are advisory in nature.

(2) "Business entity" means a sole proprietorship, partnership, firm, corporation, holding company, joint-stock company, receivership, trust, or any other entity recognized by law.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987.

Sec. 171.002. SUBSTANTIAL INTEREST IN BUSINESS ENTITY.

(a) For purposes of this chapter, a person has a substantial interest in a business entity if:

(1) the person owns 10 percent or more of the voting stock or shares of the business entity or owns either 10 percent or more or \$15,000 or more of the fair market value of the business entity; or

(2) funds received by the person from the business entity exceed 10 percent of the person's gross income for the previous year.

(b) A person has a substantial interest in real property if the interest is an equitable or legal ownership with a fair market value of \$2,500 or more.

(c) A local public official is considered to have a substantial interest under this section if a person related to the official in the first degree by consanguinity or affinity, as determined under Chapter 573, Government Code, has a substantial interest under this section.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987. Amended by Acts 1989, 71st Leg., ch. 1, Sec. 40(a), eff. Aug. 28, 1989; Acts 1991, 72nd Leg., ch. 561, Sec. 37, eff. Aug. 26, 1991; Acts 1995, 74th Leg., ch. 76, Sec. 5.95(27), eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 849, Sec. 1, eff. Sept. 1, 1997.

Sec. 171.0025. APPLICATION OF CHAPTER TO MEMBER OF HIGHER EDUCATION AUTHORITY. This chapter does not apply to a board member of a higher education authority created under Chapter 53, Education Code, unless a vote, act, or other participation by the board member in the affairs of the higher education authority would provide a financial benefit to a financial institution, school, college, or university that is:

(1) a source of income to the board member; or

(2) a business entity in which the board member has an interest distinguishable from a financial benefit available to any other similar financial institution or other school, college, or university whose students are eligible for a student loan available under Chapter 53, Education Code.

Added by Acts 1989, 71st Leg., ch. 1, Sec. 41(a), eff. Aug. 28, 1989.

Sec. 171.003. PROHIBITED ACTS; PENALTY. (a) A local public official commits an offense if the official knowingly:

(1) violates Section 171.004;

(2) acts as surety for a business entity that has work, business, or a contract with the governmental entity; or

(3) acts as surety on any official bond required of an officer of the governmental entity.

(b) An offense under this section is a Class A misdemeanor.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987. Amended by Acts 1989, 71st Leg., ch. 1, Sec. 40(a), eff. Aug. 28, 1989.

Sec. 171.004. AFFIDAVIT AND ABSTENTION FROM VOTING REQUIRED. (a) If a local public official has a substantial interest in a business entity or in real property, the official shall file, before a vote or decision on any matter involving the business entity or the real property, an affidavit stating the nature and extent of the interest and shall abstain from further participation in the matter if:

(1) in the case of a substantial interest in a business entity the action on the matter will have a special economic effect on the business entity that is distinguishable from the effect on the public; or

(2) in the case of a substantial interest in real property, it is reasonably foreseeable that an action on the matter will have a special economic effect on the value of the property, distinguishable from its effect on the public.

(b) The affidavit must be filed with the official record keeper of the governmental entity.

(c) If a local public official is required to file and does file an affidavit under Subsection (a), the official is not required to abstain from further participation in the matter requiring the affidavit if a majority of the members of the governmental entity of which the official is a member is composed of persons who are likewise required to file and who do file affidavits of similar interests on the same official action.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987. Amended by Acts 1989, 71st Leg., ch. 1, Sec. 40(a), eff. Aug. 28, 1989.

Sec. 171.005. VOTING ON BUDGET. (a) The governing body of a governmental entity shall take a separate vote on any budget item specifically dedicated to a contract with a business entity in which a member of the governing body has a substantial interest.

(b) Except as provided by Section 171.004(c), the affected member may not participate in that separate vote. The member may vote on a final budget if:

(1) the member has complied with this chapter; and

(2) the matter in which the member is concerned has

been resolved.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987.  
Renumbered from Sec. 171.006 and amended by Acts 1989, 71st Leg.,  
ch. 1, Sec. 40(a), eff. Aug. 28, 1989.

Sec. 171.006. EFFECT OF VIOLATION OF CHAPTER. The finding  
by a court of a violation under this chapter does not render an  
action of the governing body voidable unless the measure that was  
the subject of an action involving a conflict of interest would not  
have passed the governing body without the vote of the person who  
violated the chapter.

Acts 1987, 70th Leg., ch. 149, Sec. 1, eff. Sept. 1, 1987.  
Renumbered from Sec. 171.008 by Acts 1989, 71st Leg., ch. 1, Sec.  
40(a), eff. Aug. 28, 1989.

Sec. 171.007. COMMON LAW PREEMPTED; CUMULATIVE OF  
MUNICIPAL PROVISIONS. (a) This chapter preempts the common law of  
conflict of interests as applied to local public officials.

(b) This chapter is cumulative of municipal charter  
provisions and municipal ordinances defining and prohibiting  
conflicts of interests.

Amended by Acts 1989, 71st Leg., ch. 1, Sec. 40(a), eff. Aug. 28,  
1989.

Sec. 171.009. SERVICE ON BOARD OF CORPORATION FOR NO  
COMPENSATION. It shall be lawful for a local public official to  
serve as a member of the board of directors of private, nonprofit  
corporations when such officials receive no compensation or other  
remuneration from the nonprofit corporation or other nonprofit  
entity.

Added by Acts 1989, 71st Leg., ch. 475, Sec. 2, eff. Aug. 28, 1989.

Sec. 171.010. PRACTICE OF LAW. (a) For purposes of this  
chapter, a county judge or county commissioner engaged in the  
private practice of law has a substantial interest in a business  
entity if the official has entered a court appearance or signed  
court pleadings in a matter relating to that business entity.

(b) A county judge or county commissioner that has a substantial interest in a business entity as described by Subsection (a) must comply with this chapter.

(c) A judge of a constitutional county court may not enter a court appearance or sign court pleadings as an attorney in any matter before:

(1) the court over which the judge presides; or

(2) any court in this state over which the judge's court exercises appellate jurisdiction.

(d) Upon compliance with this chapter, a county judge or commissioner may practice law in the courts located in the county where the county judge or commissioner serves.

Added by Acts 2003, 78th Leg., ch. 227, Sec. 21, eff. Sept. 1, 2003;  
Acts 2003, 78th Leg., ch. 1206, Sec. 3, eff. June 20, 2003.

LOCAL GOVERNMENT CODE CHAPTER 176. DISCLOSURE OF CERTAIN  
RELATIONSHIPS WITH LOCAL GOVERNMENT OFFICERS; PROVIDING PUBLIC  
ACCESS TO CERTAIN INFORMATION

LOCAL GOVERNMENT CODE

TITLE 5. MATTERS AFFECTING PUBLIC OFFICERS AND EMPLOYEES

SUBTITLE C. MATTERS AFFECTING PUBLIC OFFICERS AND EMPLOYEES OF MORE  
THAN ONE TYPE OF LOCAL GOVERNMENT

CHAPTER 176. DISCLOSURE OF CERTAIN RELATIONSHIPS WITH LOCAL  
GOVERNMENT OFFICERS; PROVIDING PUBLIC ACCESS TO CERTAIN  
INFORMATION

Sec. 176.001. DEFINITIONS. In this chapter:

(1) "Agent" means a third party who undertakes to transact some business or manage some affair for another person by the authority or on account of the other person.

(1-a) "Business relationship" means a connection between two or more parties based on commercial activity of one of the parties. The term does not include a connection based on:

(A) a transaction that is subject to rate or fee regulation by a federal, state, or local governmental entity or an agency of a federal, state, or local governmental entity;

(B) a transaction conducted at a price and subject to terms available to the public; or

(C) a purchase or lease of goods or services from a person that is chartered by a state or federal agency and that is subject to regular examination by, and reporting to, that agency.

(1-b) "Charter school" means an open-enrollment charter school operating under Subchapter D, Chapter 12, Education Code.

(1-c) "Commission" means the Texas Ethics Commission.

(1-d) "Contract" means a written agreement for the sale or purchase of real property, goods, or services.

(2) "Family member" means a person related to another person within the first degree by consanguinity or affinity, as described by Subchapter B, Chapter 573, Government Code, except that the term does not include a person who is considered to be related to another person by affinity only as described by Section

573.024(b), Government Code.

(2-a) "Goods" means personal property.

(2-b) "Investment income" means dividends, capital gains, or interest income generated from:

(A) a personal or business:

(i) checking or savings account;

(ii) share draft or share account; or

(iii) other similar account;

(B) a personal or business investment; or

(C) a personal or business loan.

(3) "Local governmental entity" means a county, municipality, school district, charter school, junior college district, or other political subdivision of this state or a local government corporation, board, commission, district, or authority to which a member is appointed by the commissioners court of a county, the mayor of a municipality, or the governing body of a municipality. The term does not include an association, corporation, or organization of governmental entities organized to provide to its members education, assistance, products, or services or to represent its members before the legislative, administrative, or judicial branches of the state or federal government.

(4) "Local government officer" means:

(A) a member of the governing body of a local governmental entity;

(B) a director, superintendent, administrator, president, or other person designated as the executive officer of the local governmental entity; or

(C) an employee of a local governmental entity with respect to whom the local governmental entity has, in accordance with Section 176.005, extended the requirements of Sections 176.003 and 176.004.

(5) "Records administrator" means the director, county clerk, municipal secretary, superintendent, or other person responsible for maintaining the records of the local governmental entity or another person designated by the local governmental entity to maintain statements and questionnaires filed under this chapter and perform related functions.

(6) "Services" means skilled or unskilled labor or professional services, as defined by Section 2254.002, Government Code.

Added by Acts 2005, 79th Leg., Ch. 1014, Sec. 1, eff. June 18, 2005.

Amended by:

Acts 2007, 80th Leg., R.S., Ch. 226, Sec. 1, eff. May 25, 2007.

Sec. 176.002. APPLICABILITY TO CERTAIN VENDORS AND OTHER PERSONS. (a) This chapter applies to a person who:

(1) enters or seeks to enter into a contract with a local governmental entity; or

(2) is an agent of a person described by Subdivision (1) in the person's business with a local governmental entity.

(b) A person is not subject to the disclosure requirements of this chapter if the person is:

(1) a state, a political subdivision of a state, the federal government, or a foreign government; or

(2) an employee of an entity described by Subdivision (1), acting in the employee's official capacity.

Added by Acts 2005, 79th Leg., Ch. 1014, Sec. 1, eff. June 18, 2005.

Amended by:

Acts 2007, 80th Leg., R.S., Ch. 226, Sec. 2, eff. May 25, 2007.

Sec. 176.003. CONFLICTS DISCLOSURE STATEMENT REQUIRED.

(a) A local government officer shall file a conflicts disclosure statement with respect to a person described by Section 176.002(a) if:

(1) the person enters into a contract with the local governmental entity or the local governmental entity is considering entering into a contract with the person; and

(2) the person:

(A) has an employment or other business relationship with the local government officer or a family member of the officer that results in the officer or family member receiving taxable income, other than investment income, that

exceeds \$2,500 during the 12-month period preceding the date that the officer becomes aware that:

(i) a contract described by Subdivision (1) has been executed; or

(ii) the local governmental entity is considering entering into a contract with the person; or

(B) has given to the local government officer or a family member of the officer one or more gifts that have an aggregate value of more than \$250 in the 12-month period preceding the date the officer becomes aware that:

(i) a contract described by Subdivision (1) has been executed; or

(ii) the local governmental entity is considering entering into a contract with the person.

(a-1) A local government officer is not required to file a conflicts disclosure statement in relation to a gift accepted by the officer or a family member of the officer if the gift is:

(1) given by a family member of the person accepting the gift;

(2) a political contribution as defined by Title 15, Election Code; or

(3) food, lodging, transportation, or entertainment accepted as a guest.

(b) A local government officer shall file the conflicts disclosure statement with the records administrator of the local governmental entity not later than 5 p.m. on the seventh business day after the date on which the officer becomes aware of the facts that require the filing of the statement under Subsection (a).

(c) A local government officer commits an offense if the officer knowingly violates this section. An offense under this subsection is a Class C misdemeanor.

(d) It is an exception to the application of Subsection (c) that the person filed the required conflicts disclosure statement not later than the seventh business day after the date the person received notice from the local governmental entity of the alleged violation.

Added by Acts 2005, 79th Leg., Ch. 1014, Sec. 1, eff. June 18, 2005.

Amended by:

Acts 2007, 80th Leg., R.S., Ch. 226, Sec. 3, eff. May 25, 2007.

Sec. 176.004. CONTENTS OF DISCLOSURE STATEMENT. The commission shall adopt the conflicts disclosure statement for local government officers. The conflicts disclosure statement must include:

(1) a requirement that each local government officer disclose:

(A) an employment or other business relationship described by Section 176.003(a), including the nature and extent of the relationship; and

(B) gifts accepted by the local government officer and any family member of the officer from a person described by Section 176.002(a) during the 12-month period described by Section 176.003(a)(2)(B) if the aggregate value of the gifts, excluding gifts described by Section 176.003(a-1), accepted by the officer or a family member from that person exceed \$250;

(2) an acknowledgment from the local government officer that:

(A) the disclosure applies to each family member of the officer; and

(B) the statement covers the 12-month period described by Section 176.003(a); and

(3) the signature of the local government officer acknowledging that the statement is made under oath under penalty of perjury.

Added by Acts 2005, 79th Leg., Ch. 1014, Sec. 1, eff. June 18, 2005.

Amended by:

Acts 2007, 80th Leg., R.S., Ch. 226, Sec. 4, eff. May 25, 2007.

Sec. 176.005. APPLICATION TO CERTAIN EMPLOYEES. (a) The local governmental entity may extend the requirements of Sections 176.003 and 176.004 to any employee of the local governmental entity who has the authority to approve contracts on behalf of the

local governmental entity, including a person designated as the representative of the local governmental entity for purposes of Chapter 271. The local governmental entity shall identify each employee made subject to Sections 176.003 and 176.004 under this subsection and shall provide a list of the identified employees on request to any person.

(b) A local governmental entity may reprimand, suspend, or terminate the employment of an employee who knowingly fails to comply with a requirement adopted under this section.

(c) An employee of a local governmental entity commits an offense if the employee knowingly violates requirements imposed under this section. An offense under this subsection is a Class C misdemeanor.

(d) It is an exception to the application of Subsection (c) that the person filed the required conflicts disclosure statement not later than the seventh business day after the date the person received notice from the local governmental entity of the alleged violation.

Added by Acts 2005, 79th Leg., Ch. 1014, Sec. 1, eff. June 18, 2005.

Amended by:

Acts 2007, 80th Leg., R.S., Ch. 226, Sec. 5, eff. May 25, 2007.

Sec. 176.006. DISCLOSURE REQUIREMENTS FOR VENDORS AND OTHER PERSONS; QUESTIONNAIRE. (a) A person described by Section 176.002(a) shall file a completed conflict of interest questionnaire if the person has a business relationship with a local governmental entity and:

(1) has an employment or other business relationship with an officer of that local governmental entity, or a family member of the officer, described by Section 176.003(a)(2)(A); or

(2) has given an officer of that local governmental entity, or a family member of the officer, one or more gifts with the aggregate value specified by Section 176.003(a)(2)(B), excluding any gift described by Section 176.003(a-1).

(a-1) The completed conflict of interest questionnaire must be filed with the appropriate records administrator not later than

the seventh business day after the later of:

(1) the date that the person:

(A) begins discussions or negotiations to enter into a contract with the local governmental entity; or

(B) submits to the local governmental entity an application, response to a request for proposals or bids, correspondence, or another writing related to a potential contract with the local governmental entity; or

(2) the date the person becomes aware:

(A) of an employment or other business relationship with a local government officer, or a family member of the officer, described by Subsection (a); or

(B) that the person has given one or more gifts described by Subsection (a).

(b) The commission shall adopt a conflict of interest questionnaire for use under this section that requires disclosure of a person's business relationships with a local governmental entity.

(c) The questionnaire adopted under Subsection (b) must require, for the local governmental entity with respect to which the questionnaire is filed, that the person filing the questionnaire:

(1) describe each employment or business relationship the person has with each local government officer of the local governmental entity;

(2) identify each employment or business relationship described by Subdivision (1) with respect to which the local government officer receives, or is likely to receive, taxable income, other than investment income, from the person filing the questionnaire;

(3) identify each employment or business relationship described by Subdivision (1) with respect to which the person filing the questionnaire receives, or is likely to receive, taxable income, other than investment income, that:

(A) is received from, or at the direction of, a local government officer of the local governmental entity; and

(B) is not received from the local governmental

entity; and

(4) describe each employment or business relationship with a corporation or other business entity with respect to which a local government officer of the local governmental entity:

(A) serves as an officer or director; or

(B) holds an ownership interest of 10 percent or more.

(d) A person described by Subsection (a) shall file an updated completed questionnaire with the appropriate records administrator not later than the seventh business day after the date of an event that would make a statement in the questionnaire incomplete or inaccurate.

(e) Repealed by Acts 2009, 81st Leg., R.S., Ch. 87, Sec. 15.005, eff. September 1, 2009.

(f) A person commits an offense if the person knowingly violates this section. An offense under this subsection is a Class C misdemeanor.

(g) It is an exception to the application of Subsection (f) that the person filed the required questionnaire not later than the seventh business day after the date the person received notice from the local governmental entity of the alleged violation.

(h) A local governmental entity does not have a duty to ensure that a person described by Section 176.002 files a conflict of interest questionnaire.

(i) The validity of a contract between a person described by Section 176.002 and a local governmental entity is not affected solely because the person fails to comply with this section.

Added by Acts 2005, 79th Leg., Ch. 1014, Sec. 1, eff. June 18, 2005.

Amended by:

Acts 2007, 80th Leg., R.S., Ch. 226, Sec. 6, eff. May 25, 2007.

Acts 2007, 80th Leg., R.S., Ch. 226, Sec. 9, eff. May 25, 2007.

Acts 2009, 81st Leg., R.S., Ch. 87, Sec. 15.005, eff. September 1, 2009.

Sec. 176.007. LIST OF GOVERNMENT OFFICERS. The records

administrator for a local governmental entity shall maintain a list of local government officers of the entity and shall make that list available to the public and any person who may be required to file a questionnaire under Section 176.006.

Added by Acts 2005, 79th Leg., Ch. 1014, Sec. 1, eff. June 18, 2005.

Sec. 176.008. ELECTRONIC FILING. The requirements of this chapter, including signature requirements, may be satisfied by electronic filing in a form approved by the commission.

Added by Acts 2005, 79th Leg., Ch. 1014, Sec. 1, eff. June 18, 2005.

Sec. 176.009. POSTING ON INTERNET. (a) A local governmental entity that maintains an Internet website shall provide access to the statements and to questionnaires required to be filed under this chapter on that website. This subsection does not require a local governmental entity to maintain an Internet website.

(b) This subsection applies only to a county with a population of 800,000 or more or a municipality with a population of 500,000 or more. A county or municipality shall provide, on the Internet website maintained by the county or municipality, access to each report of political contributions and expenditures filed under Chapter 254, Election Code, by a member of the commissioners court of the county or the governing body of the municipality in relation to that office as soon as practicable after the officer files the report.

Added by Acts 2005, 79th Leg., Ch. 1014, Sec. 1, eff. June 18, 2005.

Amended by:

Acts 2007, 80th Leg., R.S., Ch. 226, Sec. 7, eff. May 25, 2007.

Sec. 176.010. REQUIREMENTS CUMULATIVE. The requirements of this chapter are in addition to any other disclosure required by law.

Added by Acts 2005, 79th Leg., Ch. 1014, Sec. 1, eff. June 18, 2005.

Sec. 176.011. MAINTENANCE OF RECORDS. A records

administrator shall maintain the statements and questionnaires that are required to be filed under this chapter in accordance with the local governmental entity's records retention schedule.

Added by Acts 2007, 80th Leg., R.S., Ch. 226, Sec. 8, eff. May 25, 2007.

Sec. 176.012. APPLICATION OF PUBLIC INFORMATION LAW. This chapter does not require a local governmental entity to disclose any information that is excepted from disclosure by Chapter 552, Government Code.

Added by Acts 2007, 80th Leg., R.S., Ch. 226, Sec. 8, eff. May 25, 2007.