



CITY OF PORTLAND

OFFICE OF MANAGEMENT AND FINANCE

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**City of Portland
Socially Responsible Investments Committee
Monday, July 18, 2016**

Committee Members Present: Dave Cutler, Robert Landauer, Hyung Nam, Katrina Scotto di Carlo.

Committee Members Absent: Sayer Jones, Kristen Sheeran.

City Personnel Present: Kelly Ball, OMF Business Operations; Jennifer Cooperman, BRFS Treasury; Chris Warner, Commissioner Novick's Office; Janet Storm, OMF Business Operations.

Welcome

Kelly Ball went over the agenda, meeting schedule, and process. The committee will work on developing its report to Council at the August and September meetings. The report will be submitted to Council by October 1. Any discussion and action on the committee's recommendations would take place when the Corporate Securities Do-Not-Buy List is discussed at Council. Council must vote to approve the Do-Not-Buy List by the end of the calendar year or it will sunset.

Communications

Staff answered several questions on committee procedure. No other communications were noted.

MSCI Reports

There were no MSCI reports distributed.

Committee Discussion

Jennifer Cooperman reported that Societe General changed their commercial paper program to a Section 4(2) private placement program, so it is no longer eligible for the City to purchase. Sumitomo commercial paper was downgraded and no longer meets the City's minimum ratings requirements, and therefore is also no longer eligible for the City to purchase.

Credit Suisse

Cooperman provided the estimated financial impact of placing Credit Suisse on the City's Corporate Securities DNB List. If Credit Suisse is put on the DNB List, the City could lose between \$1.5 million and \$2 million in income over a fully invested three year period.

Committee members discussed their assessment of Credit Suisse and reached consensus that there were enough concerns to recommend the bank for the DNB List.

Discussion included:

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- Concerns about corrupt corporate ethics and governance.
 - A multitude of instances of severe ethics violations in the form of bribery, fraud, and market manipulation as reported by MSCI.
 - The company's alleged involvement in a conspiracy to manipulate the London Interbank Offered Rate (LIBOR), the global interbank benchmark interest rate, and the resulting investigations, lawsuits, penalties, and other sanctions.
 - In addition to the LIBOR conspiracy, persistent fraud before and during the financial crisis of 2008 which caused significant negative impacts on consumers, municipalities, and the global financial market affecting mortgages, pensions, student loans, and financial derivatives.
 - A \$1.9 billion settlement over manipulation of the International Swaps and Derivatives Association fix benchmark interest rates.
 - A \$29 million penalty for misrepresentation of mortgage securities sold to credit unions.
 - Regulatory and civil lawsuits over antitrust violations for alleged manipulation of treasury securities.
 - Regulatory probes over foreign exchange market manipulation.
 - A class action lawsuit filed by the US Public School Teacher's Pension and Retirement Fund of Chicago over alleged manipulation on the interest rate swap market.
 - Lawsuits over facilitating terrorism by allegedly funneling money through the US to Iran in violation of the Iran Sanctions Law.
 - A culture of corruption with little effort being made to self-correct.
 - The bank's list of transgressions is longer than most of the other banks the committee has discussed.
 - In the committee's opinion, Credit Suisse is among the "worst of the worst."
- Concerns about extreme tax avoidance
 - The company pled guilty to criminal charges and paid \$2.6 billion in fines for assisting American clients for decades with evading taxes via offshore shelters.
 - Investigations into alleged involvement in the FIFA money laundering scandal.
 - Investigations into the bank's complicity in offshore tax evasion by German citizens.

ING Groep/ING Bank

Cooperman provided the estimated financial impact of placing ING Groep/ING Bank on the City's Corporate Securities DNB List. If ING Groep/ING Bank is put on the DNB List, the City could lose between \$1.5 million and \$2 million in income over a fully invested three year period.

There was consensus that the ING Groep/ING Bank would not be recommended for the DNB List.

Discussion included:

- The company has many fewer issues and of less severity than most of the other banks reviewed by the committee.

Mitsubishi UFJ Financial Group, Inc.: Bank of Tokyo-Mitsubishi UFJ and MUFG Union Bank, N.A.

Cooperman provided the estimated financial impact of placing two of Mitsubishi UFJ Financial Group, Inc.'s commercial paper-issuing bank subsidiaries – Bank of Tokyo-Mitsubishi UFJ and MUFG Union Bank, N. A. – on the City's Corporate Securities DNB List. If Bank of Tokyo-Mitsubishi UFJ is put on the DNB List, the City could lose between \$1.6 million and \$2.1 million in income over a fully invested three-year period. If MUFG Union Bank, N. A. is put on the DNB List, the City could lose between \$645,000 and \$845,000 in income over a fully invested three-year period.

The two banks were discussed separately. There was consensus that MUFG Union Bank, N.A. did not present enough issues to merit recommendation to the DNB List.

The committee was unable to reach consensus on whether or not to recommend the Bank of Tokyo-Mitsubishi UFJ for the DNB List. Voting resulted in a tie. Hyung Nam, Katrina Scotto di Carlo voted in favor. Dave Cutler and Robert Landauer voted against. It was decided that the committee will continue the discussion at the August meeting.

Two committee members felt that, although the company had some serious controversies, they were not as severe as issues at other banks, such as HSBC and Credit Suisse, and that the bank is not among the “worst of the worst.”

Two committee members felt that the concerns were serious enough to warrant recommending the bank to the DNB List. Concerns included:

- Environmental concerns
 - Criticism over the funding of palm oil production.
 - The construction and financing of a coal power plant in Indonesia.
- Concerns about corrupt corporate ethics and governance
 - Allegations of bribery and fraud including investigations, lawsuits, penalties and other sanctions by regulators for involvement in the London Interbank Offered Rate (LIBOR) interbank lending rates manipulation conspiracy.
 - SEC penalties for failure to comply with municipal bond offering requirements.
 - The perception that the bank has only made limited efforts to strengthen risk management and internal controls in the wake of controversies.
 - A feeling that the bank is among the “worst of the worst.”

Societe Generale

There was a brief discussion about Societe Generale, which is no longer an eligible issuer for the City. Committee members reached consensus that should the bank ever regain eligibility, there are enough serious concerns to recommend the bank for the DNB List. Concerns include:

- Concerns about corrupt corporate ethics and governance
 - Allegations of bribery and fraud including investigations, lawsuits, penalties and other sanctions by regulators for involvement in the London Interbank Offered Rate (LIBOR) interbank lending rates manipulation conspiracy.
 - Regulatory probes over alleged collusion to manipulate the foreign exchange market.
 - A 26.75 million settlement over alleged manipulation of municipal bond derivative prices.
 - Lawsuits and regulatory investigations into precious metals price manipulation.
 - Investigations into alleged money laundering and violations of sanctions and embargos on Iran, Cuba, and Sudan.
 - The fact that most of the corruption allegations are recent.
- Concerns about extreme tax avoidance
 - The company's role in the Panama Papers tax evasion scandal.
 - A \$1.4 million penalty for allegedly assisting US clients to evade taxes.

Sumimoto Corporation

Sumimoto is no longer an eligible issuer for the City. Committee members agreed that Sumimoto Corporation would not have been recommended for the DNB List.

Focused Public Input:

There was no focused public input.

General Public Comment

There were no general public comments.

Next Steps

The August meeting will include:

- Continued committee discussion on Bank of Tokyo-Mitsubishi UFJ.
- Review and discussion about the draft Council report.

More information and a full meeting schedule is available at <http://www.portlandoreogn.gov/omf/sric>.