



WEST VIRGINIA ADMINISTRATIVE REGULATIONS  
West Virginia State Board of Investments

Chapter 12-6  
Series II  
(1994)

Subject: Rules for the Administration of the Consolidated Pension Fund by the West Virginia State Board of Investments.

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Subject: Rules for the Administration of the Consolidated Pension Fund by the West Virginia State Board of Investments.

Section 1. General

1.01. Scope - These rules implement the provisions of West Virginia Code §12-6-1 et. seq. relating to the investment of fixed income assets by the Consolidated Pension Fund established by §12-6-8(b).

1.02. Authority - West Virginia Code §12-6-5; §12-6-8.

1.03. Purpose - The general purpose of these rules is to aid in the implementation of the legislative findings and purpose set forth in West Virginia Code §12-1-1, wherein the Board is authorized to develop and maintain modern systems, consistent with sound financial practices, for the collection, disbursement, management and investment of public moneys. These rules and regulations implement such legislative intent by prescribing procedures governing participation in, and administration of, the Consolidated Pension Fund to be administered by the Board, for the purpose of enabling the participating Pension Funds to maximize the return on their investments.

1.04. Filing Date - April 15, 1994

1.05. Effective Date - July 1, 1994

1.06. Repeal of Former Rule - This legislative rule repeals and replaces WV 113 CSR2 "Rules for the Administration of the Consolidated Pension Fund by the West Virginia State Board of Investments" filed May 17, 1991 and effective May 17, 1991.

## Section 2. Definitions

For purposes of these rules, unless a different meaning clearly appears from the context;

"Board" means the West Virginia State Board of Investments;

"Code" means the West Virginia Code of 1931, as amended;

"Consolidated Pension Fund" means the investment fund managed by the Board and established pursuant to West Virginia Code §12-6-8(a);

"Participant" means all Pension Funds, entities or individuals contributing moneys or assets to the Consolidated Pension Fund;

"Pension Funds" means and includes the Workers' Compensation Fund; the Workers' Compensation Fund II; the Pneumoconiosis Fund; the State Teachers' Retirement System Fund; the Death, Disability and Retirement Fund for members of the Department of Public Safety's Division of Public Safety; the Public Employees' Retirement System Funds; the Judges' Retirement Fund; the Municipal Police Officers' Pension and Relief Funds; the Fire Fighters' Pension and Relief Funds and such other retirement or pension funds and systems established

on behalf of public employees of the State or of its political subdivisions and administered by the State;

"Securities" shall have the same meaning set forth in West Virginia Code §12-6-2;

"Select U. S. Government Agency Obligation" means any evidence of indebtedness issued by any of the following: the Government National Mortgage Association (GNMA), Resolution Trust Corporation Securities (RTC);

"U. S. Government Agency Obligation" means and includes any obligation of any United States government agency guaranteed as to the payment of both principal and interest, directly or indirectly, by the United States of America, including but not limited to the following: the Government National Mortgage Association (GNMA); the Federal Farm Credit Bank (FFCB); Federal Land Banks (FLB); the Federal Home Loan Mortgage Corporation (FHLMC); the Federal National Mortgage Association (FNMA); Federal Home Loan Banks (FHLB); Federal Intermediate Credit Banks; Banks For Cooperatives; Tennessee Valley Authority (TVA); United States Postal Service; Farmers Home Administration (FHA); Export-Import Bank; Federal Financing Bank; Student Loan Marketing Association (SLMA); Resolution Trust Corporation Securities (RTC); and Veterans Administration (VA); and

"U. S. Government Obligations" means any direct obligation of, or obligation guaranteed as to payment of both principal and interest by, the United States of America.

Section 3. Mechanics of Participation in the Consolidated Pension Fund

Pension Funds may participate in the Consolidated Pension Fund by making written or electronic requests to the Board of Investments. Requests for deposits or withdrawals shall state the amount which the Pension Fund wishes to make available for investment, or the amount which it wishes withdrawn, as the case may be. Such requests shall also contain other information which the Board of Investments considers necessary. Detailed participation guidelines shall be approved at a regular meeting of the Board of Investments. The Board of Investments may require advance notice, as determined by the Board, for withdrawals of one million (\$1,000,000.00) or more.

Section 4. Accounting

4.01. Nature of Ownership - Each Participant shall own an undivided interest in the fixed income investment pools of the Consolidated Pension Fund based on the Participant's prorata contribution of assets at any time. Ownership shall be expressed in terms of units. Detailed operational guidelines shall be approved at a regular meeting of the Board of Investments. Each Participant, by completing and returning an "Account Request Form" to the Board of Investments, has consented to the methods of sharing gains and losses and all other accounting methods required or adopted by the Board.

4.02. Accounting System - The Board of Investments shall maintain an accounting system based on Generally-Accepted Accounting Principles.

4.03. Distribution of Earnings; Monthly Statement - The Board of Investments shall furnish to each Participant a monthly statement. This statement shall include distributed earnings or losses, deposits, withdrawals and changes in market value, if applicable, for each account. Participants will be periodically provided statements reflecting an accurate statement of the yield for the preceding period for each individual investment pool in which the participant assets are invested.

#### Section 5. Investment of Consolidated Pension Fund

5.01. General Investment Policies, Objectives and Restrictions - All fixed income investment pools in the Consolidated Pension Fund shall be subject to the policies, objectives and restrictions set forth herein.

(a) Purpose - The Board's purpose is to invest and protect the assets of the Consolidated Pension Fund for the benefit of the Participants.

(b) Standard of Care - All investments are to be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which people of experience, prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable

safety of their capital as well as the probable income to be derived.

(c) Permissible Investments - The Consolidated Pension Fund shall abide by West Virginia Code §12-6-9, as amended, and these rules and regulations with regard to permissible investments.

(d) Social Responsibility - To the extent that investments are consistent with all other standards established by the Board, selection of investments should consider the best interests of the Participants.

(e) Custody - The Board shall designate and maintain custodian arrangements in its sole discretion and no investment advisor shall maintain custody of the securities of the Consolidated Pension Fund.

(f) Investment Advisors - The Board may select and contract with investment advisors who shall act in accordance with the terms and conditions specified by the Board and the applicable State and Federal laws.

(g) Investment Objectives - All pools within the Consolidated Pension Fund shall be subject to the investment objectives listed below in descending order of priority:

(1) Preservation of Capital - To preserve the capital investment in the Consolidated Pension Fund.

(2) Diversification - To diversify the investment of the assets of the Consolidated Pension Fund so as to minimize the risk of losses.

(3) Rate of Return - To achieve a rate of return consistent with the rate of return objectives set by the Board.

(4) Stability - To maintain a high level of security in the Consolidated Pension Fund by minimizing risk and volatility insofar as possible within the rate of return objectives set by the Board.

(5) Turnover - To minimize transaction costs.

(6) Liquidity - To maintain sufficient liquidity to provide for all anticipated withdrawals or transfers and to invest in securities with sufficient marketability to provide for unexpected withdrawals.

(h) Investment Restrictions

(1) The Consolidated Pension Fund shall abide by the investment restrictions of West Virginia Code §12-6-10 and as further set forth by the Board.

(2) Not more than 20% of the portfolio of the Consolidated Pension Fund may be invested in any single industry sector. (The utility industry shall be separated for the purpose of this restriction between telephone, electric, gas distribution, and similar segments.)

(3) The Consolidated Pension Fund shall maintain a reasonable balance between the various classes of fixed income securities, without over-concentration.

(4) The Consolidated Pension Fund shall abide by the quality restrictions of West Virginia Code §12-6-9.

(5) Investment in financial futures contracts, options and other similar instruments shall be authorized for the sole purpose of performing hedges in order to reduce the risk associated with fluctuations in interest rates or market prices. Such investments shall be limited to direct obligations of, or obligations guaranteed as to the payment of both principal and interest by, the United States of America; namely, Treasury bills, notes, bonds and GNMA's. For purposes of these rules and regulations, the word "hedge" means taking a position in the futures or options market which is opposite and approximately equal to the one held in the cash market. This is a defensive strategy and shall only be used to protect the overall values of the various portfolios. Advance unanimous approval of the Board must be obtained prior to each transaction in instruments of this type.

5.02. Investment Pools - The Consolidated Pension Fund is composed of various fixed income investment pools for the Pension Funds. It is the intent of the Board that the composite Consolidated Pension Fund meet the guidelines outlined in Tables I and II of this Rule.

5.03. Asset Allocation Plan - The Board's staff shall prepare an asset allocation plan on at least an annual basis, which shall be reviewed and approved annually at a regular meeting of the Board. The purpose of the asset allocation plan is to ensure that the benefits to each Pension Fund is maximized based on the conditions and needs of each participant.

5.04. Instructions for Use of Tables - The percentages in the "Minimum" column are the minimum percentages which the Board must maintain in each type of investment instrument. For example, the 15% figure in Table I, Line 1, means that a minimum of fifteen percent of the Consolidated Pension Fund fixed income investments shall be invested in U. S. Government obligations. If the minimum percentage is "0", as in Table I, Line 2, the Board of Investments is not required to invest any moneys of the fund in instruments of that type.

The percentages in the "Maximum" column are the maximum percentages of the fund which may be maintained in each type of instrument. For example, in Table I, Line 1, the 100% figure in the "Maximum" column means that the Board may keep the entire fund invested in U. S. Government obligations. If the maximum percentage is "10", as in Table I, Line 4, this

means that the Board of Investments is permitted to invest in instruments of that type up to a maximum of 10% of the fund.

In Table 1, the "Code Reference" column refers to the section of the West Virginia Code which authorizes the kind of instrument described under the "Instrument" column.

TABLE I  
GUIDELINES FOR DIVERSIFICATION  
ACCORDING TO KIND OF INVESTMENT INSTRUMENT

<u>Instrument</u>	<u>Code Reference</u>	<u>Minimum</u>	<u>Maximum</u>
1. U. S. Government Obligation	\$12-6-9(a)	15%	100%
2. U. S. Government Agency Obligation	\$12-6-9(b)	0%	85%
3. Federally insured WV home mortgages	\$12-6-9(d)	0%	10%
4. Privately insured pools of WV home mortgages	\$12-6-9(f)	0%	10%
5. Corporate bonds, notes debentures, commercial paper and other evidence of indebtedness	\$12-6-10(1) \$12-6-9(g)	0%	75%
6. Commercial paper and other corporate ob- ligations maturing in less than one year	\$12-6-10(2) \$12-6-9(g)	0%	20%
7. Obligations of any single private corporation	\$12-6-10(3)	0%	3%
8. Fully collateralized WV certificates of deposit maturing in less than one year	\$12-6-9(h)	0%	30%
9. Repurchase agreements	\$12-6-5(9)	0%	75%
10. Reverse repurchase agreement	\$12-6-5(10)	0%	15%

TABLE II  
GUIDELINES FOR DIVERSIFICATION  
ACCORDING TO QUALITY OF CORPORATE DEBT INSTRUMENTS  
AUTHORIZED BY TABLE I

<u>Instrument</u>	<u>Minimum</u>	<u>Maximum</u>
1. Corporate bonds and notes rated "AAA" or equivalent	0%	100%
2. Corporate bonds and notes rate "AA" or equivalent	0%	50%
3. Corporate bonds and notes rated "A" or equivalent	0%	30%
4. Commercial paper rated in highest grade ("P-1" or equivalent)	0%	20%

Any corporate debt instrument that is downgraded following purchase may be liquidated at the Board of Investment's discretion if such downgrading puts the debt instrument out of compliance with Table II.

Section 6. Miscellaneous

6.01. Minimum Amount of Investment - The minimum amount of investment in the Consolidated Pension Fund is One Thousand Dollars (\$1,000.00). There is no minimum time for which deposits will be retained.

6.02. Payment of Expenses from Earnings - The Board of Investments shall deduct expenses incurred in the administration of the Consolidated Pension Fund from the gross earnings of the fund monthly. Such fees shall be established by the Board on a pro rata basis.

6.03. Board Reports - The Board of Investments staff shall provide Board members monthly financial statements prepared in accordance with Generally Accepted Accounting Principles and financial schedules reflecting purchases and sales for each pool.

6.04. Authorized Financial Institutions and Brokers - The Board of Investments staff may not do business with any financial institution or brokerage firm that has not been approved by Board members. At the first Board meeting of each fiscal year, the Board of Investments staff shall provide Board members with a complete list of all financial institutions and brokerage firms for which the Boards staff request to transact business, for their review and approval.

6.05 Reserve for Losses - The Board is authorized to establish, by appropriate accounting method, a reserve for loan losses. No interest shall be included in earnings calculations on any loans that are delinquent by sixty days or

more, or for which the Board's staff determine collection to be doubtful.

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(1990)

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H. B. 4275

(By Delegates Gallagher, Douglas, Compton,  
Huntwork, Burk and Faircloth  
(Introduced January 31, 1994; referred to the  
Committee on Finance then the Judiciary)

A BILL to amend and reenact section three, article seven, chapter  
sixty-four of the code of West Virginia, one thousand nine  
hundred thirty-one, as amended, relating to authorizing the  
board of investments to promulgate legislative rules relating  
to the administration of the consolidated pension fund.

Be it enacted by the Legislature of West Virginia:

That section three, article seven, chapter sixty-four of the  
code of West Virginia, one thousand nine hundred thirty-one, as  
amended, be amended and reenacted, to read as follows:

ARTICLE 7. AUTHORIZATION FOR DEPARTMENT OF TAX AND REVENUE TO  
PROMULGATE LEGISLATIVE RULES.

§64-7-3. Board of investments.

(a) The legislative rules filed in the state register on the  
third day of January, one thousand nine hundred eighty-four,  
relating to the state board of investments (selection of state

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1 depositories for disbursement accounts through competitive  
2 bidding), are authorized.

3 (b) The legislative rules filed in the state register on the  
4 third day of January, one thousand nine hundred eighty-four,  
5 relating to the state board of investments (administration of the  
6 consolidated fund), are authorized.

7 (c) The legislative rules filed in the state register on the  
8 ninth day of January, one thousand nine hundred ninety, modified  
9 by the state board of investments to meet the objections of the  
10 legislative rule-making review committee and refiled in the state  
11 register on the twenty-fourth day of January, one thousand nine  
12 hundred ninety, relating to the state board of investments  
13 (administration of the consolidated fund), are authorized.

14 (d) The legislative rules filed in the state register on the  
15 ninth day of January, one thousand nine hundred ninety, modified  
16 by the state board of investments to meet the objections of the  
17 legislative rule-making review committee and refiled in the state  
18 register on the twenty-fourth day of January, one thousand nine  
19 hundred ninety, relating to the state board of investments  
20 (administration of the consolidated pension fund), are  
21 authorized.

22 (e) The legislative rules filed in the state register on the  
23 thirtieth day of November, one thousand nine hundred ninety,  
24 modified by the state board of investments to meet the objections  
25 of the legislative rule-making review committee and refiled in

1 the state register on the seventeenth day of May, one thousand  
2 nine hundred ninety-one, relating to the state board of  
3 investments (establishment of imprest funds), are authorized.

4 (f) The legislative rules filed in the state register on the  
5 thirtieth day of November, one thousand nine hundred ninety,  
6 modified by the state board of investments to meet the objections  
7 of the legislative rule-making review committee and refiled in  
8 the state register on the seventeenth day of May, one thousand  
9 nine hundred ninety-one, relating to the state board of  
10 investments (administration of the consolidated pension fund by  
11 the West Virginia state board of investments), are authorized.

12 (g) The legislative rules filed in the state register on the  
13 thirtieth day of November, one thousand nine hundred ninety,  
14 modified by the state board of investments to meet the objections  
15 of the legislative rule-making review committee and refiled in  
16 the state register on the seventeenth day of May, one thousand  
17 nine hundred ninety-one, relating to the state board of  
18 investments (procedures for processing payments from the state  
19 treasury), are authorized.

20 (h) The legislative rules filed in the state register on the  
21 thirtieth day of November, one thousand nine hundred ninety,  
22 modified by the state board of investments to meet the objections  
23 of the legislative rule-making review committee and refiled in  
24 the state register on the seventeenth day of May, one thousand  
25 nine hundred ninety-one, relating to the state board of

1 investments (selection of state depositories for disbursement  
2 accounts through competitive bidding), are authorized.

3 (i) The legislative rules filed in the state register on the  
4 thirtieth day of November, one thousand nine hundred ninety,  
5 modified by the state board of investments to meet the objections  
6 of the legislative rule-making review committee and refiled in  
7 the state register on the seventeenth day of May, one thousand  
8 nine hundred ninety-one, relating to the state board of  
9 investments (administration of the consolidated fund by the West  
10 Virginia state board of investments), are authorized.

11 (j) The legislative rules filed in the state register on the  
12 thirtieth day of November, one thousand nine hundred ninety,  
13 modified by the state board of investments to meet the objections  
14 of the legislative rule-making review committee and refiled in  
15 the state register on the seventeenth day of May, one thousand  
16 nine hundred ninety-one, relating to the state board of  
17 investments (selection of state depositories for receipt  
18 accounts), are authorized with the amendment set forth below:

19 On page three, section four, by striking out the period after  
20 the word "agency" and adding the words "but shall select a  
21 depository in the same community or geographical area as the  
22 agency."

23 (k) The legislative rules filed in the state register on the  
24 thirtieth day of November, one thousand nine hundred ninety,  
25 modified by the state board of investments to meet the objections

1 of the legislative rule-making review committee and refiled in  
2 the state register on the seventeenth day of May, one thousand  
3 nine hundred ninety-one, relating to the state board of  
4 investments (procedures for deposit of moneys with the board of  
5 investments and treasurer's office by state agencies), are  
6 authorized.

7 (l) The legislative rules filed in the state register on the  
8 sixth day of November, one thousand nine hundred ninety-one,  
9 modified by the state board of investments to meet the objections  
10 of the legislative rule-making review committee and refiled in  
11 the state register on the twenty-first day of August, one  
12 thousand nine hundred ninety-two, relating to the state board of  
13 investments (reporting of state debt to the West Virginia state  
14 board of investments), are authorized.

15 (m) The legislative rules filed in the state register on the  
16 sixteenth day of August, one thousand nine hundred ninety-three,  
17 modified by the board of investments to meet the objections of  
18 the legislative rule-making review committee and refiled in the  
19 state register on the eighteenth day of January, one thousand  
20 nine hundred ninety-four, relating to the board of investments  
21 (administration of the consolidated pension fund), are  
22 authorized.

23

24 NOTE: The purpose of this bill is to authorize the Board of  
25 Investments to promulgate legislative rules relating to  
26 administration of the Consolidated Pension Fund.

27

1        Strike-throughs indicate language that would be stricken from  
2 the present law, and underscoring indicates new language that  
3 would be added.

SENATE BILL NO. 192

1 (By Senators Manchin, Anderson, Grubb, Macnaughtan  
and Minard)

2 [Introduced January 31, 1994; referred to the  
3 Committee on

FINANCE;

4  
5 Judiciary

6  
7  
8  
9  
10 A BILL to amend and reenact section three, article seven, chapter  
11 sixty-four of the code of West Virginia, one thousand nine  
12 hundred thirty-one, as amended, relating to authorizing the  
13 board of investments to promulgate legislative rules relating  
14 to the administration of the consolidated pension fund.

15 Be it enacted by the Legislature of West Virginia:

16 That section three, article seven, chapter sixty-four of the  
17 code of West Virginia, one thousand nine hundred thirty-one, as  
18 amended, be amended and reenacted, to read as follows:

19 ARTICLE 7. AUTHORIZATION FOR DEPARTMENT OF TAX AND REVENUE TO  
20 PROMULGATE LEGISLATIVE RULES.

21 §64-7-3. Board of investments.

22 (a) The legislative rules filed in the state register on the  
23 third day of January, one thousand nine hundred eighty-four,  
24 relating to the state board of investments (selection of state

1 depositories for disbursement accounts through competitive  
2 bidding), are authorized.

3 (b) The legislative rules filed in the state register on the  
4 third day of January, one thousand nine hundred eighty-four,  
5 relating to the state board of investments (administration of the  
6 consolidated fund), are authorized.

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3 would be added.

KEN HECHLER  
Secretary of State

MARY P. RATLIFF  
Deputy Secretary of State

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**SECRETARY OF STATE**

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WILLIAM H. HARRINGTON  
Chief of Staff

JUDY COOPER  
Director, Administrative Law

DONALD R. WILKES  
Director, Corporations

(Plus all the volunteer  
help we can get)

FAX: (304) 558-0900

TO: Jerry Simpson

AGENCY: Investments

FROM: JUDY COOPER, DIRECTOR, ADMINISTRATIVE LAW DIVISION

DATE: May 6, 1994

THE ATTACHED RULE FILED BY YOUR AGENCY HAS BEEN ENTERED INTO OUR COMPUTER SYSTEM. PLEASE REVIEW, PROOF AND RETURN IT WITH ANY CORRECTIONS. IF THERE ARE NO CORRECTIONS, PLEASE SIGN THIS MEMO AND RETURN IT TO THIS OFFICE. YOU WILL BE SENT A FINAL VERSION OF THE RULE FOR YOUR RECORDS.

PLEASE RETURN EITHER THE CORRECTED RULE OR THIS FORM WITHIN TEN (10) WORKING DAYS OF THE DATE YOU RECEIVED THIS REQUEST. CALL IF YOU HAVE ANY QUESTIONS.

SERIES: 2 TITLE: 113 Investments

\* THE ATTACHED RULE HAS BEEN REVIEWED AND IS CORRECT.

SIGNED: [Signature]

TITLE OF PERSON SIGNING: CHIEF OPERATING OFFICER

DATE: 5/18/94

\*\*\*\*\*

\* THE ATTACHED RULE HAS BEEN REVIEWED AND NEEDS CORRECTING. THE CORRECTIONS HAVE BEEN MARKED.

SIGNED: \_\_\_\_\_

TITLE OF PERSON SIGNING: \_\_\_\_\_

DATE: \_\_\_\_\_

NOTE: IF YOU ARE NOT THE PERSON WHO HANDLES THIS RULE, PLEASE FORWARD TO THE CORRECT PERSON.



KEN HECHLER  
Secretary of State

MARY P. RATLIFF  
Deputy Secretary of State

A. RENEE COE  
Deputy Secretary of State

CATHERINE FREROTTE  
Executive Assistant

Telephone: (304) 558-6000  
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## STATE OF WEST VIRGINIA

### SECRETARY OF STATE

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WILLIAM H. HARRINGTON  
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JUDY COOPER  
Director, Administrative Law

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(Plus all the volunteer  
help we can get)

FAX: (304) 558-0900

March 15, 1994

Jerry Simpson  
Investments  
State Capitol Complex  
Bldg. 1, Suite E122  
Charleston, WV 25305

**SB 159** authorizing, **Title 113, Series 2, Rules for the Administration of the Consolidated Pension Fund**, passed the Legislature on **March 12, 1994**. It is now awaiting the Governor's signature.

You have sixty (60) days after the Governor signs SB 159, to final file the legislative rule with the Secretary of State's office. To final file your legislative rule, fill in the blanks on the enclosed form #6, the "Final Filing" form and file the form with our office with a promulgation history of the rule. Authorization for your legislative rule is cited in **SB 159** section **64-9-41(a)**. The agency may set the effective date of the legislative rule up to ninety (90) days from the date the legislative rule is final filed with the Secretary of State's office. Please have an authorized signature on the bottom line.

**\*\*\*IMPORTANT: IF YOUR AGENCY HAS COMPLETED THE LEGISLATIVE RULE ON A WORD PERFECT OR WORD PERFECT COMPATIBLE COMPUTER SYSTEM THAT USES A 3 1/2" OR 5 1/4" DISK, YOU MUST SUBMIT A CLEAN COPY, WITH ALL UNDERLINING AND STRIKE-THROUGHS TAKEN OUT, TO OUR OFFICE WHEN FINAL FILING THE RULE. STATE ON THE DISK THE FORMAT THE RULE IS IN AND THE TITLE IT IS FILED UNDER. THIS WILL MAKE IT QUICKER FOR US TO ENTER YOUR RULES ON THE LEGISLATIVE DATA BASE. REMEMBER THE TEXT OF THE COMPUTER FILED RULE MUST BE IDENTICAL - WORD FOR WORD, COMMA FOR COMMA, WITH ALL UNDERLINING AND STRIKE-THROUGHS TAKEN OUT, AS THE HARD COPY AUTHORIZED BY THE LEGISLATURE.**

After the final rule is entered into the legislative data base, the rule will be sent to the agency for review and proofing. Following confirmation or corrections, as the case may be, the Secretary of State shall submit to the agency a final version of the rule for their records.

If you have any questions or need any assistance, please do not hesitate to call our office.

Thank You  
Administrative Law Division