



LATE TESTIMONY

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TO THE
HOUSE COMMITTEE ON
ECONOMIC REVITALIZATION & BUSINESS
THE TWENTY-SIXTH STATE LEGISLATURE
REGULAR SESSION OF 2011

Thursday, February 3, 2011
8:00 a.m.

TESTIMONY ON H.B. No. 1179 RELATING TO INVESTMENTS

THE HONORABLE ANGUS MCKELVEY, CHAIR,
AND MEMBERS OF THE COMMITTEE:

My name is Iris Ikeda Catalani, Commissioner of Financial Institutions ("Commissioner"), testifying on behalf of the Division of Financial Institutions ("Division") of the Department of Commerce and Consumer Affairs ("Department") in opposition to House Bill No. 1179. The Division respectfully opposes this bill for the following reasons. First, the purview of the Division is to license, supervise and regulate financial institutions, escrow depositories, money transmitters, mortgage servicers, mortgage loan originators, and mortgage loan originator companies. The bill would direct the

Commissioner to establish and operate a short-term investment pool to invest money of the State which exceeds the amounts necessary to meet the immediate requirements of the State. The Division believes this function would be outside the Commissioner's purview and regulatory authority.

Secondly, the Division believes there may be a potential conflict for the Commissioner to manage an investment pool in a state chartered financial institution. The Division licenses, supervises, and regulates, with the federal regulators, the state chartered financial institutions. The potential conflict arises if the Commissioner finds that a financial institution may be violating state or federal laws or regulation and that violation may negatively impact the holding of the investment pool at the financial institution.

For these reasons, the Division opposes House Bill No.1179, and respectfully asks that the Commissioner of Financial Institutions not be the government agency to manage and invest these investment pools.

Thank you for the opportunity to testify. I would be pleased to respond to any questions you may have.

TESTIMONY BY KALBERT K. YOUNG
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ECONOMIC REVITALIZATION & BUSINESS
ON
HOUSE BILL NO. 1179

February 3, 2011

RELATING TO INVESTMENTS

House Bill No. 1179 proposes to amend Section 36-21, Hawaii Revised Statutes, to transfer the responsibility for the short-term investment of State funds from the Director of Finance to the Commissioner of Financial Institutions ("Commissioner") within the Department of Commerce and Consumer Affairs. The bill also proposes to establish an advisory committee on short-term investments to advise the Commissioner on the operation of a short-term investment pool, which would be operated under contract with a private investment advisor selected by the Commissioner and advisory committee.

The Department opposes the transfer of the responsibility for short-term investment of State funds as we believe that the management of State funds, which includes the investment of funds and meeting liquidity requirements, is appropriately situated within the Department. Furthermore, as the Commissioner has the responsibility for the supervision and regulation of all financial institutions in the State, having the Commissioner be responsible for the investment of funds in these institutions may create a conflict of interest.

Recognizing that appropriate concerns were raised in the State Auditor's report, we have implemented changes with immediate impact to the policies and

procedures for the management of State funds. Examples of such immediate changes were to increase the frequency of reports from staff to Director and Deputy and to provide the Director and Deputy with direct access to on-line daily financial reports. We are also in the process of updating the policies and procedures with respect to the investment of State funds and believe that given additional time, the Department's policies and procedures will appropriately reflect updated best practices and policies for our investment portfolio. As part of this review, we will be evaluating the option of contracting with a private investment advisor to manage the short-term investment of State funds.

The Department strongly supports the establishment of an advisory committee on short-term investments, which is consistent with our efforts to improve the management of State funds. We believe that such a committee will provide the Department with the appropriate level of guidance and advice for the prudent investment of State funds.

Thank you for the opportunity to provide testimony on this measure.