Testimony of

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before the

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Committee on Financial Services

Subcommittee on Capital Markets and Government Sponsored Enterprises

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The Impact of Dodd-Frank on Customers, Credit, and Job Creators

Chairman Garrett, Ranking Member Waters, and Members of the Committee:

Good morning. I am Anne Simpson, Senior Portfolio Manager, Investments and Director of Corporate Governance at the California Public Employees' Retirement System (CalPERS). I am pleased to appear before you today on behalf of CalPERS and share our views on the positive impact Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) is having on US capital markets.[1] I also want to address the "unfinished business" of Dodd-Frank, to highlight the importance of completing the task of ensuring smart regulation to protect investors and protect the markets upon which we and the wider public rely.

My testimony includes a brief overview of CalPERS, including how we benefit from effective financial markets regulation and the role that shareowner rights and corporate governance play in building investor confidence. My testimony also includes a discussion of our views on those key provisions of the Dodd-Frank we believe will significantly enhance investor protections, improve corporate governance and strengthen the U.S. financial system to the benefit of long-term investors like CalPERS and the thousands of retirees and employees that are the beneficiaries of our fund.

<u>Some Background on CalPERS</u>

CalPERS is the largest public pension fund in the United States with approximately $232 billion in global assets and equity holdings in over 9,000 companies. CalPERS pays out over $14 billion annually in retirement benefits to more than 1.6 million public employees, retirees, their families and beneficiaries. This is not only an important source of daily income for those

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[1] Unless otherwise noted, all section citations refer to Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203 [hereinafter Dodd-Frank]

individuals; it also provides a positive economic multiplier to the local economy.[2] We fully understand the virtuous circle between savings, investment and economic growth. That is at the heart of the CalPERS agenda.

As a significant institutional investor with a long-term investment time horizon, CalPERS fundamentally relies upon the integrity and efficiency of the capital markets. For every dollar that we pay in benefits to our members, 66 cents are generated by investment returns. The financial crisis hit us hard. $70 billion were wiped from CalPERS assets. We simply cannot afford another assault on our fund. We rely upon the safety and soundness of capital markets, and more broadly, sustainable economic growth, to provide the long term returns that allow us to meet our liabilities. However, there is still much to be done to bring about smart regulation, which is why we support the efforts of the Systemic Risk Council. The SRC is a joint project by the CFA Institute and the Pew Charitable Trusts established to urge regulators to effectively monitor and regulate risk to our financial system and chaired by former FDIC chair Sheila Bair.

"As evidenced by the 2008 crisis and even recent headlines, we need a more effective and efficient early-warning system to detect issues that jeopardize the functioning of US financial markets before they disrupt credit flows to the real economy," Bair said in announcing the creation of the SRC. "And two of the most critical tasks are how to impose greater market discipline on excess risk taking and effectively end the doctrine of 'too big to fail'."

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[2] *See* "The Economic Impacts of CalPERS Pension Payments in 2010", Dr. Robert Fountain, Regional Economic Consultants, (July 2011). ("Every California County benefits from CalPERS retirement payments. In larger urban counties impact is greatest on the total dollar amount of gross regional product. In smaller, rural counties the percentage increase in the gross regional product is greatest. CalPERS payments have a positive impact on jobs throughout the state and in 17 counties they supported more than one percent of the total jobs in their communities.")

In our view, smart regulation should be structured as follows:

First, regulation needs to be complete and coordinated. Innovation in financial markets has led to the development of new financial instruments and pools. Regulation needs to keep pace with financial innovation and the attendant risks in order to be relevant. (Derivatives are an example of that innovation, but it is innovation outside the reach of regulation.)

Second, regulation needs to allow market players to exercise their proper role and responsibilities. Capitalism was designed to allow the providers of finance a market role in allocating investment, and then holding boards accountable for their stewardship of those funds. This is why shareowner rights are vital to the functioning of markets, including the ability of investors to propose candidates to boards of directors (known in short as 'proxy access') and to remove directors who fail.

Third, regulation needs to ensure transparency, so that markets can play their vital role in pricing risk. Timely, relevant and reliable information is the currency of risk management. Those agencies which have a role in channeling that information need to be fit for that purpose. (Credit ratings agencies were found wanting in this regard.)

Fourth, regulation needs to address conflicts of interest and perverse incentives which can undermine the market's ability to allocate capital effectively. (Short term, risk-free compensation for executives has fuelled poor decision taking, as one of example of this).

Fifth, regulation needs to ensure it does not prevent institutional investors from financing legitimate strategies, and taking advantage of new opportunities. Regulation is not there to prevent risk taking, it is there to ensure that risks are disclosed, and can be managed.

Finally, regulation needs to be proportionate. For CalPERS, we balance the additional costs that are required with the potential for financial ruin. To those who question whether we can afford to invest in smart regulation, we reply, how can we afford not to? The financial crisis dealt a crippling blow to many investors, and the underlying sub-prime mortgage scandal has triggered widespread loss for ordinary people throughout the country. The devastating impact on the real economy is still with us, and recovery is still frail. The costs of regulation need to be weighed against this loss.

We see smart regulation as an investment in safety and soundness of financial markets which generate the vast bulk of the returns to our fund. Smart regulation is an investment in the effective functioning of capital markets, which is critical not just to our fund, but to the recovery of the wider economy.

CalPERS' Investment Strategy – The Impact of Dodd-Frank

CalPERS believes that Dodd-Frank, as enacted, will establish an effective framework for promoting the safety and soundness of capital markets and providing institutional investors the protections and rights to ensure markets function. However, unless effectively implemented, the promise of Dodd-Frank will remain largely unfulfilled. Below we highlight the critical elements of "unfinished business" which we regard as vital to delivering on that promise.

Derivatives Regulation

CalPERS strongly supports the goal of regulating the trading of derivatives to ensure risks are disclosed, and conflicts of interest are addressed. CalPERS believes that pension plans and their beneficiaries will benefit greatly from the oversight and transparency the legislation would bring to the derivatives market. The Investors' Working Group[3] succinctly explained the problems with unregulated swaps markets. The blue-ribbon panel lead by former SEC Chairmen Bill Donaldson and Arthur Levitt was direct:

> It is widely acknowledged that OTC derivatives contracts, and particularly CDS, played a significant role in the current financial crisis. For December 2008, the Bank for International Settlements reported a notional amount outstanding of $592 trillion and a gross market value outstanding of $34 trillion for global OTC derivatives. This enormous financial market was exempted from virtually all federal oversight and regulation by the Commodity Futures Modernization Act of 2000 (CFMA).
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> Although OTC derivatives have been justified as vehicles for managing financial risk, they have also spread and multiplied risk throughout the economy in the current crisis, causing great financial harm. Warren Buffett has dubbed them "financial weapons of mass destruction." Problems plaguing the market include lack of transparency and price discovery, excessive leverage, rampant speculation and lack of adequate prudential controls.[4]

Dodd-Frank sought to address many of these issues by helping ensure that most swaps are exchange-traded and/or centrally cleared.[5] It also raised by the bar for swaps dealers transacting with special entities such as CalPERS by establishing business conduct standards. We are pleased that the CFTC has adopted thoughtful rules to implement the business conduct standards, but worry that many other implementing regulations remain incomplete. These include key definitions, from which many other requirements stem, rules on position limits, clearing, reporting and extraterritoriality. With regard to the latter, the CFTC recently proposed a rule relating to extraterritorial applications of swaps regulation. While we are still reviewing the

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[3] Established in 2008, the Investors' Working Group was an independent, nonpartisan commission sponsored by the Council of Institutional Investors and the CFA Institute Centre for Financial Market Integrity to recommend ways to improve the regulation of U.S. financial markets.

[4] Investors' Working Group, *U.S. Financial Regulatory Reform, The Investors' Perspective* pp 10-11 (July 2009), http://www.cii.org/UserFiles/file/resource%20center/investment%20issues/Investors'%20Working%20Group%20Report%20(July%202009).pdf [hereinafter IWG Report]

[5] *See* Dodd-Frank, Section 701 et seq.

proposal, as a global investor, we hope the agency's final rule closes any and all offshore loopholes.

The Volcker Rule

We strongly support the objectives of Section 619, the so-called Volcker Rule, and would like to incorporate by reference the attached comment letter previously submitted to the Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation and Securities and Exchange Commission.

The recent trading losses by JP Morgan Chase illustrate the importance of ensuring that regulators impose careful constraints on proprietary trading by federally insured financial institutions. Although the firm's CEO has asserted that "no client, customer or taxpayer money was impacted by this incident," there is no doubt that clients, customers and taxpayers were exposed to excessive risks due to speculative proprietary trading. That the losses were borne by shareowners does not detract this crucial point, nor does it diminish the need to effectively implement the Volcker Rule.

We are hopeful the federal agencies will act swiftly to issue final rules in these areas and expect the rules to positively impact investor protections and capital formation.

Alignment of Interest

Rational individuals tend to act in their own economic interest. . For that reason, it is vital that incentives are aligned when those individuals taking risks as taking them with other peoples' money. We regard it as a vital part of fiduciary oversight to ensure that interests are aligned between executives in companies, and the providers of long term capital, such as CalPERS.

That alignment needs to reflect potential rewards, but also the downside risk. We observed the impact of misaligned incentives in painful detail during the recent financial crisis when lenders re-packaged risky debt obligations such as accounts receivable or subprime mortgages as high quality asset-backed securities. In essence, these companies would make bad loans, resell them (as securitized products) and shift the risk of default to someone else. By separating the debt origination and default risk, orginators had little economic incentive to scrutinize anyone's credit worthiness.

Section 941 changed this by imposing new "risk retention" obligations upon those who issue asset-back securities and require them to retain at least a five percent of the credit risk of any asset. However, these provisions have not yet been implemented. Federal financial regulators issued a proposed rule in March 2011, but have failed to finalize the risk retention rules. As a purchaser of asset-back securities, CalPERS has a compelling interest to see that it's long-term economic interest in the securities are aligned with those originating the securitizations and underlying debt obligations.

We are hopeful that financial regulators will act swiftly to issue final rules in these areas and expect the rules to positively impact investor protections and capital formation.

Credit Rating Agencies

Credit rating agencies played a major role in the recent financial crisis. They provided many securitized products with investment-grade ratings, even though underlying debt instruments posed serious risks of default. The agencies used outdated modeling to help assign a rating and were highly motivated (by the issuer-pays model) to provide their clients the ratings they sought. Moreover, the regulatory exemption from Section 11 liability (found in Securities Act Rule 436(g)) effectively exempted the firms from third-party liability. In sum, problems with the asset-backed securities markets would not have been as glaring had credit rating agencies properly scrutinized the securities they were rating and not provided these products with ratings that suggested they were of high quality and low risk.

In response, Dodd-Frank included some important provisions intended to improve transparency and accountability of credit rating agencies. These include:

- Strengthening regulatory oversight through creation of a new Office of Credit Ratings within the SEC responsible for both inspections and rulemaking (§932).
- Strengthening internal control requirements to ensure rating agency compliance with their own ratings policies, procedures, and methodologies (§932);
- Adopting new rules to reduce the influence of conflicts of interest on ratings decisions (§932, §939H);
- Enhancing transparency for ratings, including the assumptions underlying those ratings and the methodologies on which they are based, in order to better enable investors to determine whether and how to use those ratings (§932);
- Adopting of universal ratings symbols (§938);
- Increasing accountability for rating agencies, holding them legally accountable for knowing or reckless misconduct (§933) and removing their special protection from expert liability when ratings are used in a prospectus (§939G); and
- Reducing regulatory reliance on ratings through elimination of references to ratings in financial system rules and laws (§939A).

We were pleased to learn that the SEC recently appointed a director of the Office of Credit Ratings and anticipate the Office will conduct efficient and effective reviews of the agencies and we look forward to analyzing the Office's final inspection reports. We believe objective performance reviews of credit rating agencies will improve credit analysis and transparency.

The SEC has also finalized rules that removed references to credit ratings for issuers using "short form" registration and proposed a series of other rules in spring 2011. However, the SEC has yet to finalize any of those other rules. In addition, through two no-action letters, the SEC provided relief for issuers who were unable to obtain a credit ratings after the agencies' refused to allow their ratings to be included in securities filings.

We are hopeful the SEC will act swiftly to issue final rules in this area and withdraw the no-action letter that allows credit rating agencies to avoid legal liability for false ratings in securities filings. Once completed, we expect these rules to positively impact investor protections and capital formation.

Shareowner Rights – Investor Protection

It is widely acknowledged that the 2008 financial meltdown represented a massive failure of oversight.[6] Too many CEOs pursued excessively risky strategies or investments that bankrupted their companies or weakened them financially for years to come.[7] Boards of directors were often complacent, failing to challenge or rein in reckless senior executives who threw caution to the wind.[8] And too many boards approved executive compensation plans that rewarded excessive risk taking.[9]

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[6] *See* Financial Crisis Inquiry Commission, The Financial Crisis Inquiry Report *xviii* (Jan. 2011), http://www.gpoaccess.gov/fcic/fcic.pdf ("We conclude dramatic failures of corporate governance and risk management at many systemically important financial institutions were a key cause of this crisis") [hereinafter FCIC Report. IWG Report, *supra* note 1, at 22.

[7] IWG Report, *supra* note 1, at 22.

[8] *See* Staff of S. Permanent Subcomm. on Investigations, Wall Street and the Financial Crisis: Anatomy of a Financial Collapse 185-86 (Apr. 13, 2011), http://hsgac.senate.gov/public/_files/Financial_Crisis/FinancialCrisisReport.pdf (providing evidence that board oversight of Washington Mutual, Inc., including oversight of enterprise risk management, was "'less than satisfactory'"); IWG Report, *supra* note 1, at 22.

[9] FCIC Report, *supra* note 1, at *xix* ("Compensation systems—designed in an environment of cheap money, intense competition, and light regulation—too often rewarded the quick deal, the short-term gain—without proper consideration of long-term consequences); *see also* Deputy Secretary of the Treasury Neal Wolin, Remarks to the Council of Institutional Investors 4 (Apr. 12, 2010), http://www.ustreas.gov/press/releases/tg636.htm (noting that ""irresponsible pay practices . . . led so many firms to act against the interests of their shareholders"); IWG Report *supra* note 1, at 22.

Accountability is critical to motivating people to do a better job in any organization or activity.[10] An effective board of directors can help every business understand and control its risks, thereby encouraging safety and stability in our financial system and reducing the pressure on regulators, who, even if adequately funded, will be unlikely to find and correct every problem.[11] Unfortunately, long-standing inadequacies in investor protection have limited shareowners' ability to hold boards accountable.[12]

Fortunately, the Dodd-Frank contains a number of reforms that when fully implemented and effectively enforced will provide long-term investors like CalPERS with better tools, including better information, to hold directors more accountable going forward.[13] These included provisions that:

- Provide for a shareholder vote on executive compensation (§951);
- Enhance disclosure requirements about role of, and conflicts involving, compensation consultants. Also requires the SEC to direct that exchanges adopt listing standards that include certain enhanced independence requirements for members of issuers' compensation committees and to establish competitive neutral independence factors for all who are retained to advise compensation committees (§952);
- Include additional disclosure requirements involving executive compensation including pay-for-performance and the ratio between the CEO's total compensation and the median total compensation for all the other company employees (§953);
- Require that the SEC direct the exchanges to prohibit the listing of securities and issuers that have not developed and implemented compensation claw-back policies (§954);
- Impose disclosure requirements involving whether directors and employees are permitted to hedge any decrease in market value of the company's stock (§955);

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[10] Press Release, *supra* note 5, at 2.
[11] *Id.*
[12] IWG Report, *supra* note 1, at 22 ("shareowners currently have few ways to hold directors' feet to the fire").
[13] S. Comm. On Banking, Housing, & Urban Affairs, Rep. On The Restoring American Financial Stability Act 30 (Mar. 22, 2010), http://banking.senate.gov/public/_files/RAFSAPostedCommitteeReport.pdf (Noting that the Senate version of Dodd-Frank contained provisions designed to give investors "more protection" and shareholders "a greater voice in corporate governance") [hereinafter S. Rep.].

- Clarify the authority of the SEC to issues rules allowing for meaningful proxy access for board of director nominations (§971); and
- Require disclosure by issuers on board chair and chief executive officer (§972).

We are pleased the SEC adopted final rules executive compensation in January 2011[14] and we just completed our first proxy season under these rules. We see a positive impact. Dialogue with companies has improved – and companies are making sensible reforms in response to shareowner concerns.

Last month, the SEC issued final rules on listing standards for compensation committees. In September, 2010, the SEC issued final rules providing meaningful proxy access,[15] however those rules were overturned by the DC Circuit Court due to an inadequate cost-benefit analysis. In March 2011, the SEC issued proposed rules relating to audit committee independence but has yet to finalize the rules. The SEC has not issued rule proposals on any of the remaining corporate governance provisions. We note that the Investor Advisory Committee has now been formed, and await the appointment of the Investor Advocate in the near term.

We are hopeful the SEC will act swiftly to issue final rules in these areas and expect the rules to positively impact investor protections and capital formation. .

Regulatory Agency Funding

The SEC and CFTC play vital roles in fostering capital formation and protecting investors in financial markets. CalPERS has long recognized that for the SEC and CFTC to achieve their stated objectives, they must be well-managed, well-staffed and that means they must be well-

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[14] Shareholder Approval of Executive Compensation and Golden Parachute Compensation, 76 Fed. Reg. 6010 (final rule Apr. 4, 2011) http://www.gpo.gov/fdsys/pkg/FR-2011-02-02/pdf/2011-1971.pdf

[15] Facilitating Shareholder Director Nominations, 75 Fed. Reg. 56,668 (final rule Sept. 16, 2010), http://www.gpo.gov/fdsys/pkg/FR-2010-09-16/pdf/2010-22218.pdf

funded. Rules without enforcement are little better than useless. In 2001, CalPERS testified in support of legislation that would put SEC staff salaries on par with other financial regulators and was pleased that pay-parity provisions were enacted into law that year. More recently, we called for lawmakers to provide the SEC and CFTC with stable, independent funding. Although no such mechanisms were included in Dodd-Frank, it remains imperative that the SEC and CFTC be given sufficient resources to effectively police the U.S. capital and futures markets.

We believe the SEC and CFTC's FY2013 funding requests reflects the importance of their traditional core responsibility, as well as the new authority granted it in Dodd-Frank, and we urge you to support their funding requests.

Thank you, Mr. Chairman for inviting me to participate at this hearing. I look forward to the opportunity to respond to any questions.

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February 13, 2012

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RE: PROHIBITIONS AND RESTRICTIONS ON PROPRIETARY TRADING AND CERTAIN INTERESTS IN, AND RELATIONSHIPS WITH, HEDGE FUNDS AND PRIVATE EQUITY FUNDS

Dear Ladies and Gentlemen:

I am writing on behalf of the California Public Employees' Retirement System (CalPERS), the largest public pension fund in the United States, with approximately $234 billion in global assets and equity holdings in approximately 11,000 publicly traded companies. CalPERS provides retirement benefits to more than 1.6 million public workers, retirees, and their families and beneficiaries.

CalPERS strongly supports the efforts by the Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation and Securities and Exchange Commission (the "Agencies") to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protections Act (Dodd-Frank), commonly referred to as the "Volcker Rule." The present system of bank regulation allows too much downside risk in the financial system, and we applaud the Agencies' efforts to minimize that risk.

The Volcker Rule will help reduce the risks brokerage operations pose to their financial holding companies and, if effectively implemented, will help mitigate the risks SIFI's (Systemically Important Financial Institutions) pose to the overall financial system. Accordingly, we support the rule's intent to ensure that a bank's trading activity is consistent with underwriting and market making related activities and not prohibited proprietary trading.

With this in mind, we would like to offer the following observations on the proposed rules by the Agencies.

- Implementation of the Volcker rule will increase the cost of transacting and reduce liquidity to all markets (e.g., equity, fixed income, derivative) where SIFI's conduct proprietary trading. Thus, we acknowledge that the systemic protections afforded by the Volcker Rule come at price. Specifically to the debt markets, it will impose higher transaction costs and cause spreads to rise. Thus, our portfolio values will be reduced due to the higher spread or yield investors demand to compensate for the higher transaction costs. In addition, when we do transact in our portfolios, the cost will be higher. Since our portfolio turnover rate is relatively low, the expected rise in annual transaction costs is an acceptable cost for reducing risk in the financial system. However, institutions with higher turnover, like hedge funds, mutual funds or other high volume traders, are likely to be more negatively impacted by the increased transaction costs.

- We believe that a decline in bank proprietary trading will increase the volatility of the corporate bond market, especially during times of economic weakness or periods where risk taking declines. However, corporate bond portfolio managers have experienced many different periods when markets have been illiquid:1997 – Asian Crisis, 1998 - Long Term Capital, 2000 – Tech Bubble Crash, 2001-2002 Corporate Malfeasance, and 2009 Recession/Financial Crisis. We believe, post the implementation of the Volcker rule,that the market will adapt. Portfolio managers will increase their use of CDS to reduce economic risk to specific bond positions as the liquidation process of cash bonds takes more time. We also believe that alternative market matching networks will be developed to match and cross sellers with buyers. The Agencies should seek to increase the disclosure of trade data in TRACE by increasing the universe of securities covered and to include greater disclosure on size of trades. This will provide investors with more transparency on price discovery during periods when markets are illiquid. The Agencies should plan in advance to measure and monitor how the implementation of the Volcker rule impacts the markets and whether unintended risks develop as transaction volume moves to alternative markets, counterparties or pools of liquidity.

- The Agencies' common framework, applied to all covered financial institutions, should communicate the acceptable level of position limits, P&L, inventory turnover, customer facing trades and portfolio risk limits based on specific market size, volatility and correlation of risks. This will ensure that the implementation of the rules is consistently applied across all SIFIs and a priority is established for deviations from the rules and enforcement.

- We believe that a daily trade level and backward assessment of what constitutes market making versus proprietary trading may be impractical and impose onerous reporting requirements on both banks and regulators.

- As asset managers, not unlike market makers, we manage the daily mark to market risk and correlation of positions and know how a position's size and weight can impact results. Our experience in this area suggests that regulators consider a softer stance on inventory accumulation that is held for a short time period (1-5 days) if it is "right sized" relative to a bank's capital, volatility and potential investor demand. At the same time, we would suggest that regulators use a vintaging methodology that would create disincentives for market makers to hold positions beyond a short term period, by imposing increasingly higher capital requirements on aged inventory and identified portfolio risks. We think this less stringent implementation may help ease the impact on investor liquidity needs during all market environments.

- Treasury futures should be treated in a consistent manner as US treasury debt and be exempt from proprietary trading rules. Treasury futures have a return profile similar to cash treasuries and are used by many market participants and primary dealers as hedging instruments. We would also advocate allowing inventory in dollar denominated Sovereign bonds for short time periods, subject to vintaging rules that require increased capital based on the age of a position, as described above.

- For the Volcker Rule to work effectively, it should be implemented globally. Without multilateral agreements with regulators in other countries, establishing Volcker type restrictions on US financial market making institutions may put them at a competitive disadvantage. Simply imposing a ban on proprietary trading by US financial institutions, without comparable restrictions in the global marketplace, would reduce systemic risk to the US financial system but would likely result in increased counterparty risk for investors that execute trades with off shore counterparties that provide better liquidity.

- Dodd Frank and the Volcker Rule represent the most significant reregulation of the banking industry since Glass-Steagall. With the implementation of these rules, the SEC should also promulgate enhanced and expanded financial reporting requirements for SIFI's, at both the holding company and significant operating company levels. SIFI's are complex financial institutions that have and will continue to require significant invested capital from the debt markets. During the last financial crisis, management teams were reluctant to provide increased detail and segmentation of risks to investors, arguing that disclosure informs competitors of important trade secrets. SEC disclosure directives should be broad in the scope of risks covered (interest rates, credit, liquidity, geographic, product, concentration, etc.) and provide quantitative (not qualitative) measures of risk with standardized computation methods to ensure comparability across time and institutions. Lastly, debt holders should be seeking greater transparency from SIFI's due to the powers given to the FDIC, in the Dodd-Frank Bill, to carry out an orderly liquidations of SIFI's, in a manner that maximizes the value of the institution's assets and ensures that creditors and shareholders bear any loss without putting the financial system at risk.

- Finally, most financial institutions fail due to the write down of poor quality assets that are the result of poor underwriting decisions. In the prior crisis, many SIFI's were not under stress because of proprietary trading losses of their market making function, but because of the retention of poor quality assets after underwriting securities and unsuccessfully distributing that risk. Many SIFI's underwrote and retained risk in Sub Prime mortgages, CDO tranches, and the High Yield debt of LBO issuers that needed to be written down. Thus, we suggest the Agencies consider whether they have sufficient provisions to reduce the risk posed by this very common revenue generating activity that poses heightened financial risk at the top of economic cycles.

Thank you for considering our comments. If you have any questions, please do not hesitate to contact me at (916) 795-2062.

Sincerely,

JANINE GUILLOT
Chief Operating Investment Officer
CalPERS

Cc: Joe Dear, Chief Investment Officer – CalPERS
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