October 29, 2013

Members of the California Delegation
US House of Representatives
Washington, DC 20515

Subject: CalPERS Concerns with HR 992

Dear Members of Congress:

On behalf of the California Public Employees' Retirement System (CalPERS), I am writing to express our strong concerns about the "Swaps Regulatory Improvement Act" (HR 992) which we understand is slated for floor action tomorrow October 30.

As the largest public pension fund in the United States, with approximately $265 billion in global assets providing retirement security to more than 1.6 million public workers, retirees, their families, and beneficiaries, CalPERS is reliant upon effective and comprehensive market regulation designed to protect investors.

It is widely acknowledged that OTC derivatives contracts, and particularly credit default swaps, played a significant role in the recent financial crisis. In 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).

As an institution, we greatly appreciate the enormous amount of work that Congress has exerted with successful enactment of Dodd-Frank, as well as subsequent efforts by the CFTC, SEC and other regulatory bodies to enforce this critical body of laws. With the advent of a Cleared OTC Swaps mandate under Dodd-Frank, much progress has been made to reduce the counterparty risk and opacity which were historically inherent with this market. This achievement is very much applauded by CalPERS, as we, along with all investors, are reliant upon a continued liquid and transparent functioning of financial markets to ensure the security of our stakeholder's financial future.

It is for the reasons mentioned above, that we are also gravely concerned by the recently proposed Swaps Regulatory Improvement Act. Specifically, section 716 of Dodd-Frank bans taxpayer bailouts for swaps dealers and speculators, including financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As the impetus of our need for Dodd-Frank legislation was in fact the U.S. Government bailout of risk-taking market makers, it would be extremely unfortunate if an expanded list of exempt transactions under section 716 is allowed to effectively repeal the same systemic stability goals which are a backbone of our newly created regulatory framework. The Swaps Regulatory Improvement Act would directly increase risk of another financial markets bailout [catastrophe] at the expense of American taxpayers. .

As supporters of smart financial regulation, we urge you to resist efforts to roll back important systemic protections.

Thank you for your consideration. If you have any questions, please do not hesitate to contact me at (916) 795-9672 (anne_simpson@calpers.ca.gov) or Don Marlais of Lussier, Gregor, Vienna & Associates - our federal representatives - at (703) 888-4522 (dmarlais@lgva.net).

Sincerely,

Anne Simpson

Senior Portfolio Manager

Investments

Director of Global Governance