

January 16, 2024

VIA ELECTRONIC SUBMISSION

Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, D.C. 20551  
Docket No. R-1813, RIN 7100-AG64

Chief Counsel's Office  
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400 7th Street, SW  
Suite 3E-218  
Washington, D.C. 20219  
Docket ID OCC-2023-0008

James P. Sheesley, Assistant Executive Secretary  
Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, D.C. 20429  
RIN 3064-AF29

**Re: Docket ID OCC-2023-0008 – Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity**

Ladies and Gentlemen:

The undersigned U.S. public pension funds (together, the “Systems”) appreciate the opportunity to submit this letter to the Office of the Comptroller of the Currency (“OCC”), the Board of Governors of the Federal Reserve System (“FRB”), and the Federal Deposit Insurance Corporation (“FDIC,” and together, the “Agencies”) on their proposed rule (the “Proposal”) to implement the final set of Basel III reforms.<sup>1</sup>

We wanted to provide a bit of background on each of the undersigned funds:

- The State of Wisconsin Investment Board (“SWIB”) is an independent state agency of the State of Wisconsin that invests the assets of the Wisconsin Retirement System (“WRS”) and other state trust funds. SWIB manages \$143 billion in assets and the WRS serves over 675,000 active and retired beneficiaries who represent a wide variety of public employees in Wisconsin, including teachers, law enforcement, nurses, municipal employees and more. 20% of Wisconsin residents benefit from the WRS, either directly or through a family

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<sup>1</sup> Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity, 88 Fed. Reg. 64028 (Sept. 18, 2023).

member. In 2022, the WRS paid \$6.9 billion in benefits to retirees. Our retirement structure is a hybrid of a defined benefit and defined contribution and does not receive any general revenue from the State. Therefore, any benefit increases (or decreases) that our beneficiaries receive come solely from the investment performance of the assets we manage. This structure means that all marginal gains, as well as increased costs, are passed directly on to our beneficiaries via the risk-sharing structure of our plan. SWIB has nearly \$40 billion of securities financing-related activities that may be impacted by this Proposal. For every 1 basis-point (0.01%) of additional cost, our beneficiaries would stand to lose \$4 million annually. We also are concerned about the liquidity and viability impact the Proposal will have on these markets which allow us to prudently manage our assets and risk. Our plan was also recently rated AAA by S&P.

- The Ohio Public Employees Retirement System (“OPERS”) is the largest public retirement system in Ohio with more than \$110 billion in assets under management and approximately 1.2 million active, inactive, and retired members. Nearly one out of every ten Ohioans has some connection to our System, and because Ohio’s public employees do not contribute to Social Security, OPERS often represents the only retirement benefit many of our members will ever receive. As a mature defined benefit plan, OPERS disburses almost \$600 million in pension benefits each month in good economic times and bad, which not only helps to sustain our members and their families, but also the local economies in which they live. Given our investment profile and liquidity needs, we estimate that OPERS has \$25 billion in securities financing transactions, cash, and derivatives-related activities that could be impacted by this Proposal. We echo SWIB’s concerns regarding the indirect impacts of the Proposal on the liquidity and viability of the markets upon which we depend to prudently manage our portfolio. The consequences of moving forward with the current Proposal will be significant and materially harm our members’ retirement security.

Our Systems represent a critical part of both U.S. capital markets and the larger economy. Millions of individuals depend on these pensions to safeguard and grow their savings and to provide them with adequate financial security during retirement. The benefits paid annually to our beneficiaries drive economic activity by allowing them to meet their needs and support businesses, large and small.

As long-term investors and providers of retirement security, our Systems depend on stability within the financial system. We recognize the Agencies’ interest in putting forward this Proposal, but we respectfully request that the Agencies consider the indirect impacts that the Proposal will have on entities that depend on the current banking system for liquidity and risk mitigation, like U.S. public pension funds. Understanding that any secondary impacts on our Systems were likely unintended, we are asking the Agencies to consider the changes discussed below. We believe

they are consistent with the goals of the Proposal and will help to mitigate our concerns as market participants.

In particular, we are respectfully requesting that the Agencies:

1. Remove public rating and listing requirements for favorable risk weights for Government-sponsored public pensions which may fall within the corporate exposure categories.
  - The Proposal provides a favorable 65% risk weight for exposures to companies that are investment grade and have (or are controlled by companies with) publicly traded securities outstanding.
  - By definition, many public pension funds would not be able to meet this requirement. We generally have no reason to issue a publicly traded security, and in many cases are statutorily prohibited from doing so.
  - As a class, public pension funds are not less creditworthy than a corporation with a publicly traded security. In fact, the regulations, oversight, and transparency we are subject to are likely more stringent than those applicable to many publicly traded companies.
  - As such, public pension funds should not be disadvantaged relative to entities that receive a more favorable risk weight.
2. Exempt pension funds from the proposed credit valuation adjustment (“CVA”) requirements.
  - The Proposal’s CVA requirements may inhibit us from availing ourselves of certain financial products used to manage risk and deliver returns for our beneficiaries.
3. Exclude minimum haircuts for Securities Financing Transactions (“SFT”) from the final rule.
  - SFT transactions are an integral and standard tool for delivering a diversified income source for pensions, addressing liquidity, and managing risk.
  - As drafted, the Proposal would drive investors (i) to engage in more risky, reverse repo transactions, (ii) to conduct transactions with non-regulated entities, or (iii) out of the market entirely.

- Additionally, the Proposal is inconsistent with steps taken by other jurisdictions and with standard market practice for SFTs within the current regulatory framework.

As currently written, the Proposal would interfere with our ability to access critical services, manage our assets in ways that create value for our members, and allow us to prudently manage our risk. The cumulative effect of these impacts is that U.S. public pension funds will experience increased costs, as well as additional volatility and risk, despite the fact that our Systems are highly creditworthy, transparent, accountable entities that provide retirement security for millions of Americans.

## **I. Overview of Key Recommendations.**

A number of aspects of the Proposal are likely to have a deleterious effect on market efficiency and liquidity, both of which are critical for public pension funds that must manage large pools of assets and make regular benefit payments.<sup>2</sup> As capital requirements increase – without due regard for the riskiness of the transactions banks are entering into – we fully anticipate that we will experience higher costs, which will put pressure on our ability to generate returns for our members.<sup>3</sup>

Beyond increased costs however, we are concerned that the Proposal could reduce our options for generating efficient liquidity and prudently managing our risk, both of which are critical for mature pension funds like ours, as U.S. banking organizations exit lines of business they see as unprofitable.

In particular, we are concerned that the Proposal’s minimum haircut requirements for SFTs will prevent us from continuing to utilize the securities lending market to decrease volatility within our portfolios. Similarly, we are also concerned that the Proposal’s risk weight and CVA requirements would negatively, and in some cases, disparately, impact public pension funds by increasing costs and obstructing access to necessary financial services.

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<sup>2</sup> As written, the Proposal could have numerous second order effects for customers of U.S. banking organizations, such as U.S. public pension funds. There are many key financial services our Systems rely on and obtain from U.S. banking organizations that would be subject to the Proposal. This list of key services includes (a) prime brokerage (e.g., execution, financing, settlement); (b) broker-dealer services (e.g., advice, asset management, and execution); (c) custodial services (e.g., settlement, proxy voting, collateral management); (d) securities lending; (e) acting as counterparty for certain hedging and liquidity providing transactions (including derivative); and (f) access to money market funds.

<sup>3</sup> Hugh Son, CNBC, “Wall Street CEOs try to convince senators that new capital rules will hurt Americans as well as banks,” Dec. 6, 2023 (quoting JPMorgan Chase CEO Jamie Dimon, “Savings for retirement or college will yield lower returns as costs rise for asset managers, money-market funds and pension funds.”) <https://www.cnbc.com/2023/12/06/wall-street-ceos-say-basel-3-endgame-rules-will-hurt-americans.html>

As noted above, it is generally understood that increasing capital requirements could raise the cost of credit across the economy.<sup>4</sup> As FRB Governor Waller has pointed out, “someone must bear” these increased costs.<sup>5</sup> Our concern is that public pension funds and by extension, their members and beneficiaries, will be the ones to bear these costs, in the form of decreased access to funding options, higher fees, reduced returns, and decreased access to valuable hedging and risk management services.<sup>6</sup> Additionally, we are concerned that if the Proposal results in higher fees and lower spreads, it may naturally drive out some market participants – which will decrease liquidity for all investors and runs counter to the goals of the Proposal.

To be clear, we believe the reforms made in the wake of the global financial crisis have made the U.S. financial system more resilient and should be applauded. However, that does not necessarily mean they should be expanded without serious consideration of the breadth of the consequences for all market participants, especially those like public pension funds that generally present very low risks to banks and the economy.

Our Systems are long-term investors with significant funding and payment obligations. We have a vested interest in maintaining strong, resilient, *but* also liquid markets. In this, we do not believe our goals are inconsistent with those of the Agencies. However, we are deeply concerned that the second-order impacts that could result from the implementation of the Proposal will unnecessarily disrupt our securities finance and derivatives activities to the detriment of those who depend on us to prudently manage their retirement contributions. As such, we are respectfully requesting that the Agencies incorporate the following changes as they work to finalize the Proposal. Again, we believe these changes are wholly consistent with the intent of the Proposal and will mitigate our concerns by making the final rule more risk sensitive and less disruptive to U.S. financial markets.

## **II. The final rule should remove public rating and listing requirements for investment grade corporate exposures.<sup>7</sup>**

At the outset, we acknowledge that the Agencies have attempted to address potential risk weight issues by proposing a favorable 65% risk weight for exposures to companies that are investment grade and that have (or are controlled by) companies

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<sup>4</sup> FRB, Statement by Chair Jerome H. Powell (“[The Proposal may] increase the cost of, and reduce access to, credit,” and [it may] “threaten a decline in liquidity in critical markets.”) (July 27, 2023), <https://www.federalreserve.gov/newsevents/pressreleases/powell-statement-20230727.htm>.

<sup>5</sup> FRB, Statement by Governor Christopher J. Waller (“An increase in capital requirements forces banks to hold more capital against the services they provide to families and businesses, which is equivalent to imposing a tax on those services. Someone must bear the cost of that tax; the only question is who will bear it.”) (July 27, 2023), <https://www.federalreserve.gov/newsevents/pressreleases/waller-statement-20230727.htm>.

<sup>6</sup> See Footnote 4, *supra*.

<sup>7</sup> This section is responsive to Questions 38, 39 and 40.

that have) publicly traded securities outstanding. In proposing this approach, the Agencies contend that “publicly-traded corporate entities are subject to enhanced transparency and market discipline as a result of being listed publicly on an exchange.”<sup>8</sup> On this, we agree completely – transparency and market discipline are important factors for a banking organization to determine the riskiness of corporate exposures. However, we would offer that issuance of public securities is neither the sole, nor the best, gauge of counterparty risk. Rather, there are numerous other factors that demonstrate creditworthiness, including, in this case, the many and varied statutory requirements and administrative regulations applicable to U.S. public pension funds.

Like most public pension funds, our Systems are subject to extensive and stringent regulations, financial disclosures, and oversight promoting high levels of transparency, accountability, and market discipline, even though they do not, in the usual course of business, access public markets through securities issuance. In fact, through requirements such as daily net asset value calculations and the production of periodic financial statements that are audited in accordance with best practices within the industry and subject to Governmental Accounting Standards Board standards, U.S. public pension funds often disclose information comparable to or, in some cases, greater than publicly listed entities. And, like other U.S. governmental entities, state pension plans are generally subject to open meetings laws, requirements concerning access to public records, and oversight by democratically elected bodies (e.g., state legislatures).

Further, because our Systems have a fiduciary duty to their members and thus, must adopt prudent investment strategies designed solely to maximize the value of their members’ retirement contributions, we represent less risk to counterparties and are arguably better credit risks than many companies that would qualify for the more favorable 65% risk weight under the Proposal.

It is also important to consider the harm that will result from assigning less favorable risk weights to entities like public pension funds that do not issue publicly traded securities. If our Systems receive more conservative risk weights, we are concerned that banking organizations, acting on their own balance sheet management concerns, will be incentivized to prioritize counterparties with more favorable risk weights over those with less favorable weights, which will put us at a disadvantage relative to other investors.

In summary, our Systems do not create the sort of credit risk that requires materially higher capital requirements for banking counterparties. As such, we believe that the Agencies could extend a more favorable risk weight to public pension funds and still satisfy their desire for consistency, transparency, and market discipline among counterparties. Removing the barrier of a public listing requirement would ensure

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<sup>8</sup> 88 Fed. Reg. at 64054.

that comparatively creditworthy investors are treated equitably and would serve to harmonize international capital requirements by aligning the Agencies' final rule with proposed or finalized Basel III Endgame implementation plans in almost every major jurisdiction.

### **III. The final rule should exempt pension funds from CVA requirements.**

Pension funds, like many other asset managers, engage in maturity transformation and use derivatives to hedge their risks. For example, due to their long-term rate sensitive liabilities, pension funds may use derivatives to hedge interest rate or longevity/mortality risk. Moreover, pension funds may use derivatives to prudently diversify their portfolios and efficiently gain exposure to equity, credit, foreign exchange, and other markets for which cash exposure may be too expensive or require significant leverage.

Specifically, SWIB utilizes a wide variety of derivatives to manage the risk and exposures of the assets we manage. We use foreign exchange forwards to efficiently gain or reduce exposure to foreign currencies across many strategies. We also use swaps to hedge various market risks and to efficiently gain exposure to desired positions that may be less liquid or operationally complex in physical markets. These instruments are an integral part of our comprehensive asset and risk management approach.

By increasing the amount of capital that U.S. banking organizations must hold for these types of derivatives transactions, the Proposal would limit our liquidity options and increase the cost of gaining exposure to these important hedging instruments. For example, several banks have indicated that their capital charges will increase by up to five times, and if even a small portion of that increase is shifted to public pension funds, there will be a material impact on our derivative transaction costs, leading to lower returns for our members.

As discussed above, pension funds as a class are creditworthy institutions that pose a relatively low risk to their banking counterparties. The risks associated with exposures to our Systems are closer to those of other public sector entities, such as municipalities, than they are to more highly leveraged financial institutions, such as hedge funds or broker-dealers.

Further, we believe that imposing this cost increase on public pension funds would be inconsistent with current statutory exemptions for commercial end-users from mandatory clearing and margin requirements for over-the-counter swaps.<sup>9</sup> These

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<sup>9</sup> The Dodd-Frank Act exempted certain commercial entities from mandatory swaps and security-based swaps clearing. *See* 7 U.S.C. § 2(h)(7)(A); 15 U.S.C. § 78c-3(g)(1). The Terrorism Risk Insurance Program Reauthorization Act of 2015 expanded the exemption to exempt swaps from mandatory initial and variation margin requirements where one of the parties is a commercial end user and uses swaps to hedge or mitigate commercial risk or is eligible for a public interest exemption from swaps clearing requirements for certain cooperative entities. *See* 7 U.S.C. §

exemptions reflect the intent of both Congress and the Agencies to place the costs of increased capital charges on banks and not commercial end-users, such as public pension funds.

Accordingly, we respectfully request that the final rule exempt transactions with public pension funds, and the other public funds we manage, from the proposed CVA requirements. Doing so would better reflect the relatively low-risk nature of the derivatives transactions conducted between public pension funds and their banking organization counterparties, and would also comport with the spirit of the capital framework's treatment of commercial end-users, which assigns a lower alpha factor to commercial end-users in the standardized approach for counterparty credit risk.<sup>10</sup> Moreover, it would bring the U.S. into alignment with international standards as, for example, the European Union exempts pension funds and other commercial end-users from similar CVA requirements.<sup>11</sup>

On a separate but related matter, we also believe the Agencies' final rule should exempt public pension funds from CVA requirements for exposures resulting from a bank's exposure to its client resulting from its guarantee (or similar financial intermediation) to a central counterparty of its client's obligations. Generally, our Systems are required to clear derivatives through banking organizations. Many market participants, including public pension funds, choose to use central clearing (such as FICC sponsored repo) because of its scalability and liquidity. However, because public pension funds cannot be direct members, we are required to be sponsored into the central counterparty and should not be unfairly targeted to our disadvantage.

This clearing process may result in derivatives exposure by a banking organization to its client, but without the meaningful CVA risk for which additional capital requirements would enhance resilience. By excluding all elements of cleared transactions, other than the client-facing leg, the Proposal would unnecessarily disadvantage entities like public pension funds that must clear derivatives, with the result again being disparately higher costs for public pension funds' hedging activities.

#### **IV. The final rule should exclude minimum haircuts for SFTs.**

Our Systems participate in the SFT markets in order to access liquidity and enhance returns for our members. Further, we participate in securities lending transactions as

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6s(e)(4); 15 U.S.C. § 78o-10(e)(4). Separately, the Agencies and the Commodity Futures Trading Commission excluded swaps with commercial end users from mandatory margin requirements under the Dodd-Frank Act, recognizing that such swaps pose less risk to the financial system. *See* 80 Fed. Reg. 74840, 74843 (Nov. 15, 2015).

<sup>10</sup> Although pension funds are financial end users, their activities and risk profile are closer in many respects to commercial end users.

<sup>11</sup> EU, Capital Requirements Regulation, Article 383.



both lenders and borrowers. Although securities loans are SFTs (and described as “repo-style transactions” under the Proposal), they do not result in the type of shadow banking leverage that the proposed minimum haircuts are meant to mitigate.

Generally, pension funds receive cash and other collateral in exchange for lending securities. Managed adequately, these transactions, like most SFTs, help us navigate different liquidity risks and market environments. Changing standard market haircuts so that borrowers are now recipients of excess collateral, rather than asset owners, will significantly disrupt long-standing market practices that have been recognized and acknowledged in previous regulations. Perhaps more importantly, minimum haircut requirements would likely prevent many public pension funds from participating in the securities lending market due to board policies or state legislation requiring excess collateral to be held by the lender to minimize risk to our Systems.

In order to fully understand the consequences of the Agencies’ minimum haircut proposal, it is important to describe how public pension funds utilize SFTs. In one example, OPERS engages in securities lending transactions to minimize volatility and ensure liquidity within their portfolio. As a mature pension system with significant benefit payment obligations (approaching \$600 million per month), OPERS uses securities lending to mitigate the volatility of cash flows that would otherwise occur from moving such large sums of money from the fund’s cash portfolio (approximately \$18 billion) on a regular basis. These are relatively straightforward and low-risk transactions that allow OPERS to more effectively and efficiently manage its portfolio for the benefit of its members. Like many other public pension funds, OPERS is governed by a policy that requires any collateral received in an SFT transaction to exceed the value of the securities lent, which would automatically fail any minimum haircut requirement, and which would effectively prevent these funds from accessing the SFT markets moving forward. Thus, OPERS would be forced to engage in asset sales to meet its liquidity needs, which would quickly deplete the balance of its cash portfolio, with increasing volatility impacts as the fund balance shrinks.

SWIB utilizes repurchase agreements to similar ends, but SWIB often finds itself on both sides of repo transactions. In managing the liquidity risk of the fund, SWIB utilizes repo both as a cash investment, as well as a way to raise liquidity through reverse repo. Utilizing our physical assets to raise cash is both cost-effective for our beneficiaries, and also allows the funds to stay fully invested. An increase in haircuts for SFTs would naturally impose additional costs on these transactions, which will in turn reduce participation and therefore the liquidity of these markets. If the Proposal is adopted as written, our Systems’ liquidity and financing needs will not change, but we will have fewer opportunities to address those needs, with a consequence being that public pension funds will either be forced to (a) increase exposure to riskier, leverage-based transactions (assuming their policies or governing laws allow that), (b) sell assets to meet their liquidity needs, or (c) leave the market altogether and find

other ways (e.g., transactions with non-regulated entities) to balance their liquidity and stability needs, which we believe are inconsistent with the intent of the Proposal.

As noted above, existing regulations recognize the standard securities lending margin structure, and in particular, the distinction between securities-driven transactions and cash-driven transactions. For example, the FRB’s Regulation T exempts securities lending and borrowing transactions from minimum margin requirements to the extent the transaction is made for “the purpose of making delivery of the securities in the case of short sales, failure to receive securities required to be delivered, or other similar situations.”<sup>12</sup> Further, Regulation T clarifies that the required deposit of cash against borrowed securities must be “bona fide.”<sup>13</sup> Similarly, the Securities and Exchange Commission’s customer protection rule (15c3-3) generally requires broker-dealers that borrow securities to fully collateralize such borrowings (subject to daily mark-to-market and margining requirements).<sup>14</sup> Thus, absent a workable exemption, the Proposal’s minimum haircut requirements would conflict directly with banking organizations’ obligations to appropriately collateralize their securities borrowings.

It is also worth noting that a decision to implement the proposed minimum haircuts would make the United States an outlier and go against the Proposal’s purpose of harmonizing capital standards across jurisdictions. As far as we are aware, no major jurisdiction has implemented or even proposed minimum haircuts as part of their Basel III Endgame reforms. To the contrary, jurisdictions such as the European Union and the United Kingdom have recommended continued deliberation on the need and design of minimum haircuts. Specifically, the European Union proposes to require European regulatory bodies “to report . . . on the appropriateness of implementing in the [European] Union the minimum haircut floors framework applicable to SFTs.”<sup>15</sup> Similarly, the United Kingdom’s Prudential Regulatory Authority “will consider whether implementation in the capital framework is appropriate in due course, taking into account data available under SFT reporting.”<sup>16</sup> Given that, in contrast to the United States, both the European Union and United Kingdom have been collecting data on SFTs for a significant period of time, it would be especially premature for the Agencies to implement minimum SFT haircuts.

Given the concerns addressed above, we are recommending several changes to the Proposal, which are discussed in more detail below, to help mitigate our concerns. In this, we have tried to tailor our recommendations so that they are consistent with the Agencies’ goals in issuing the Proposal, but modified in such a way that they are

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<sup>12</sup> 12 CFR 220.10(a).

<sup>13</sup> 12 CFR 220.103(e).

<sup>14</sup> 17 CFR 240.15c3-3(b)(3)(iii).

<sup>15</sup> EU Commission CRR Proposal at 27.

<sup>16</sup> Bank of England, CP16/22 – Implementation of the Basel 3.1 standards (“[CP 16/22](#)”), ¶ 1.5 n. 3 (Nov. 30, 2022).

more equitable, reflective of current market realities, and less complicated to operationalize.

We recognize that the Agencies have attempted to provide certain conceptually appropriate exemptions that would, in principle, exclude the types of SFTs in which our Systems engage. However, we are concerned that these exemptions, if they are even applicable to our Systems, could create significant operational burdens that will make compliance impractical and potentially nullify the benefit of the exemptions entirely.

**A. The Proposal’s exemption for transactions in which the securities lender reinvests cash collateral at the same or a shorter maturity than the original transaction should be better calibrated so that transactions with limited liquidity risk are not subject to minimum haircuts.**

As noted above, although the Agencies have attempted to exclude the types of SFTs, in which public pension funds engage, the exemption itself creates a number of operational difficulties that will discourage plans from relying upon it. For example, under the Proposal’s framework, the lender in an SFT (e.g., our Systems) would be restricted to reinvesting the cash collateral received at the same or a shorter maturity than the original transaction, which restricts our Systems’ investment options and will reduce our investment returns.

Most securities lending activity is done on a demand (effectively overnight) basis. In order to maximize operational efficiency and take advantage of economies of scale, agent lenders typically manage collateral received on a pool basis, including reinvesting cash collateral received in liquid investments (including in U.S. Treasury and agency securities, CDs, and commercial paper, among other instruments). At the end of each business day, or on the following business day, the agent lender will allocate collateral proportionally among the various beneficial owners.

We believe the Agencies’ final rule should exempt transactions in which the securities lender reinvests cash collateral in “liquid and readily marketable” securities (as currently defined in the rule) from minimum haircuts, as well as transactions where securities are lent on demand where the lender reinvests cash collateral into a reinvestment fund or where that collateral is recycled to meet the aggregate liquidity needs of the lender. Such investments may be readily liquidated or are part of an overall risk-managed liquidity plan for the investor. Providing pension funds with more tools to access liquidity makes for a more stable market. As mentioned previously, the alternative is other forms of borrowing (such as a line of credit or debt issuance), which is often unsecured, adding to systemic liquidity risks.

In each case, borrowers should be able to rely on representations by lenders (or their agents) that their cash collateral reinvestment guidelines meet the criteria for these

exceptions.<sup>17</sup> Otherwise, it may not be possible for borrowers to know whether one of several hundred beneficial owners from which it borrows happen to comply with minimum haircuts based on the agent lender's allocation for that business day, thereby restricting activity in an important source of overall market liquidity.

Accordingly, we are respectfully requesting that the Agencies recalibrate this exemption so that transactions with limited liquidity risk (i.e., SFTs with public pension funds) are not subject to minimum haircut requirements. Further, we are asking the Agencies to implement any such exemption in a manner that would eliminate undue burdens on public pension funds, which are highly regulated and generally present less risk to counterparties.

As noted above, we are concerned that if the Agencies unnecessarily restrict SFT activity, financing activity could move away from liquid, transparent markets to less regulated sectors of the market, such as private debt, which will materially increase risk for our Systems and is inconsistent with the intent of the Proposal.

**B. The final rule's definition of an in-scope transaction should exclude SFTs involving non-defaulted government-sponsored enterprise ("GSE") exposures, in addition to the Proposal's exclusion of sovereign exposures.**

On a separate but related matter, GSE securities form an important part of many of our Systems' investment strategies, and help members manage long-term rate risks. The market for GSE securities is highly liquid, including during stress periods, as evidenced by their extensive use as a part of Federal Reserve monetary policy.<sup>18</sup> Accordingly, SFTs involving GSEs present minimal credit and liquidity risk and should not be considered in-scope for minimum SFT haircuts. Again, we would stress that any reduction in liquidity within the SFT markets will have negative, unintended consequences that disproportionately impact large, low-risk asset managers, such as public pension funds.

**V. Conclusion.**

We are grateful for the opportunity to submit comments on the Agencies' Proposal and appreciate your consideration of our concerns. As discussed above, the Proposal will negatively and inequitably impact public pension funds and, by extension, their members and beneficiaries. We represent a unique class of market participants, one which is strictly regulated, well-capitalized, highly creditworthy, transparent, accountable, and serves the public good. And, while we generally support your efforts to implement this regulation in a manner consistent with other jurisdictions and its intended purposes, we urge you to consider and mitigate the collateral

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<sup>17</sup> This would be fully consistent with the Financial Stability Board's criteria.

<sup>18</sup> See 88 Fed. Reg. 64139 ("GSE debt instruments guaranteed by the GSEs consistently trade in very large volumes and, similar to U.S. Treasury securities, have historically been able to rapidly generate liquidity for a banking organization, including during periods of severe market stress.").

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impacts of this Proposal on public pension funds as you work to finalize this regulation.

If you have questions regarding our comments, please do not hesitate to contact the undersigned.

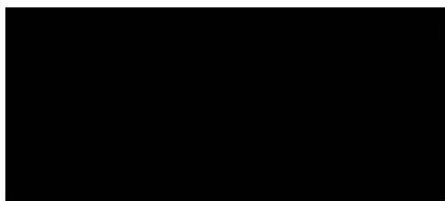
Respectfully submitted,

Edwin Denson



Executive Director/Chief Investment Officer,  
State of Wisconsin Investment Board

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Chief Investment Officer,  
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