

**Michael C. Schlachter, CFA**  
**Managing Director & Principal**

September 30, 2013

Mr. Henry Jones  
Chair, Investment Committee  
California Public Employees' Retirement System  
400 Q Street  
Sacramento, CA 95814

Re: Global Derivatives and Counterparty Risk Policy

Dear Mr. Jones,

You requested our comments regarding the new Global Derivatives and Counterparty Risk Policy. As this agenda item is a first reading, we are making no recommendation for or against approving this policy at this time.

### **Discussion**

The new policy prepared by Staff replaces and consolidates the current derivatives and counterparty policies. We have reviewed all of the new policies and the policies that they replace and have spoken to several members of Staff regarding this new policy.

A good deal of procedural language has been removed, such as specifics about things like counterparty ratings and limits. While those types of items have previously been decided by the board, the governance changes made over the past few years have delegated this to the Staff and the new policy has therefore eliminated all of these specifics. Going forward, a Staff committee will determine all risk limits instead of the Investment Committee.

In light of these procedural changes, we recommend that the Investment Committee continue to require Staff to periodically report on any changes made to counterparty and derivative risk limits and the aggregate levels of counterparty risk.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

**Wilshire Associates**

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A handwritten signature in black ink, appearing to read 'Michael A. ...'.