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Federal Investment Policy Report for the CalPERS Board
September 2015

I. Derivatives

1. **Brief Summary of Issue.** Implementation of Dodd-Frank reforms relating to the regulation of derivatives.

2. **Developments Since Last Report.**
    - **Staff.** Eric Pan was named Director of the CFTC's Office of International Affairs. Pan joined the Commodity Futures Trading Commission (CFTC) from the Securities and Exchange Commission ("SEC"), where he was the Associate Director for Regulatory Policy in its Office of International Affairs. While at the SEC, Pan oversaw international regulatory policy and represented the agency at the Financial Stability Board, IOSCO and in other bilateral settings.
    - **Portfolio Reconciliation.** The CFTC announced that it will publish a proposed amendment to the regulatory definition of "material terms" for purposes of portfolio reconciliation performed by swap dealers and major swap participants. The proposed amendment would replace an existing "no-action" letter issued during implementation of Dodd-Frank.
    - **Position Limits.** The CFTC also unanimously approved proposed rules to modify the aggregation provisions of its position limit rules. The new proposed rules provide that owners of a greater than 50 percent interest would follow the same procedure that would apply to owners of an interest between 10 and 50 percent, and be able to disaggregate the owned entity's positions after filing a notice with the CFTC stating that specified standards have been met.

3. **Implications for CalPERS.** CFTC rulemaking will impact the ability of CalPERS to trade derivatives for the purpose of enhancing returns and hedging portfolio risk. New CFTC staff could help facilitate harmonization between CFTC and SEC regulatory regimes, as well as address differences between U.S. and EU regulatory regimes impacting cross boarder issues.

4. **CalPERS/Federal Representative Actions.** Ongoing monitoring of relevant developments with respect to CFTC rulemaking and Congressional consideration of CEA reauthorization.

5. **Recommendations for Next Steps.** We will continue to provide updates and recommend action by CalPERS as warranted, including comment on relevant rulemakings.

II. Housing Finance

1. **Brief Summary of Issue.** Policy developments relating to housing finance including the market for asset backed securities.

2. **Developments Since Last Report.**
    - **GSE CEO Pay Legislation.** The Senate advanced legislation introduced by Senators David Vitter (R-LA) and Elizabeth Warren (D-MA) that would cap the Government

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September 30, 2015

Sponsored Enterprises' (GSEs) CEO compensation at $600,000 per year. This bill is likely to become law before year end but, with its passage, there may be reduced momentum and opportunity to accomplish other housing finance reform measures.

- **GSE Preferred Shares Legislation.** A bi-partisan group of Senate Banking Committee members attempted to quickly advance legislation to the Senate Floor to prevent the Treasury Department from selling its preferred shares in the GSEs in the absence of clear Congressional direction. However, Senate Banking Committee Ranking Member Sherrod Brown (D-OH) put a hold on the bill because he is said to favor a comprehensive approach to GSE reform, as opposed to incremental steps. Senator Brown's hold may allow time for Senators to negotiate a more robust reform proposal that they could seek to attach to "must pass" legislation.

3. **Implications for CalPERS.** Changes to housing finance policy could impact market liquidity, mortgage interest rates and CalPERS investment returns.

4. **CalPERS/Federal Representative Actions.** Ongoing monitoring of relevant developments, including expected proposals relating to a single platform for GSE securities and credit risk transfer proposals.

5. **Recommendations for Next Steps.** We will provide updates and recommend action by CalPERS as warranted, including comment on relevant rulemaking and legislative proposals.

III. Securities

1. **Brief Summary of Issue.** Policy developments relating to capital formation, investor protection and securities market structure.

2. **Developments Since Last Report.**
   - **Nominations.** White House continued to consider candidates to replace departing SEC Commissioners Luis Aguilar and Daniel Gallagher. George Washington University Law Professor Lisa Fairfax was mentioned as a possible candidate to fill Aguilar's seat. A move to nominate Fairfax would likely be well-received by Democratic Senators who have been critical of financial regulator nominees that are considered too close to Wall Street interests.
   - **Credit Ratings.** The SEC adopted amendments to remove credit rating references in the principle rule that governs money market funds (2a-7) and the form that money market funds use to report information to the SEC each month about their portfolio holdings. The SEC also adopted amendments that would subject additional securities to issuer diversification provisions in the money market fund rule. The rules become effective on October 14, 2016.
   - **Security-Based Swaps Compliance Delay.** The SEC pushed back the deadline for security-based swap ("SBS") participants to comply with certain provisions of Dodd-Frank. This is the tenth such extension over the last four years and it affects rules related to margin requirements for SBS participants and when disqualified people can make SBS deals. Rules already adopted by the SEC under Title VII of Dodd-Frank cannot take effect until all rules under this title are finalized.

- **Liquidity Risk Management.** The SEC unanimously approved proposing new rules and amendments to certain rules and forms that would provide for liquidity risk management programs and related disclosures for open-end management investment companies. We intend to continue monitoring the proposed rules and amendments.
- **Political Activity Disclosure.** Forty-four Senate Democrats wrote to SEC Chair Mary Jo White expressing support for rules that would require public companies to disclose to their shareholders how they use corporate resources for political activities. The Senators requested Chair White to make the rulemaking a top priority in the near term and to inform them of the basis for her decision should the matter not be included on the SEC's 2016 regulatory agenda.

3. **Implications for CalPERS.** Ongoing SEC rulemaking could impact transparency necessary for informed allocation of capital by institutional investors, as well as corporate governance matters relevant to long term investment returns. Nominations of the new SEC Commissioners will continue to be of interest because of the implications with respect to such issues.

4. **CalPERS/Federal Representative Actions.** Ongoing monitoring of relevant developments including legislative proposals and discussions with policymakers relating to SEC nominations.

5. **Recommendations for Next Steps.** We will provide updates and recommend action by CalPERS as warranted.