Teacher Retirement System of Texas

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April 28, 2012

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. 1438 and RIN 7100-AD-86

Ladies and Gentlemen;

As you are aware, the Teachers Retirement System of Texas ("TRS") is one of the nation's largest public employee retirement systems, providing retirement benefits to over 312,000 retired individuals. In connection with meeting its funding obligations, TRS invests its assets globally, with diversified holdings and total assets of $104.1BN as of December 31, 2011. While we agree with the core objective of reducing systemic risk in Congress' enactment of the credit concentration limits of Section 165 of Dodd-Frank, we are very concerned about the adverse impact of the current concentration limits in Section 165's Proposed Rules (the "Proposed Ruies"). Specifically, we are concerned with the likely retraction in indemnified securities lending and the negative consequences on both credit markets and market liquidity, as well as securities lending revenue to TRS.

Since 2002, our U.S. custodial bank has been providing custody, securities lending and related services to TRS. Over that period, securities lending has generated over $860MM in incremental revenues to TRS. Not only is this revenue stream critical to TRS in its defraying of numerous administrative expenses, but also in offsetting its pension liabilities. In discussions with several market participants we have become aware of the Proposed Rules' punitive methodology for calculating securities lending, and other, credit exposures and the potential for up to a 50% reduction in securities lending revenues.

TRS strongly urges the Federal Reserve to better align Section 165's credit exposure calculations with actual credit risk incurred by indemnification providers. As stated above, we have been engaged in securities lending for almost 10 years with our current custodial bank and have not suffered losses through cyclical times or various credit crisis. In addition to supporting securities lending for its incremental revenue, we are also cognizant and appreciative of its role in promoting efficient capital markets (both in the U.S. and globally) and related price discovery and market liquidity.

We also feel it is important to stress the vital role that our custodial bank plays as our securities lending agent. TRS relies on its custodial bank's robust trading, operations and credit functions to provide a seamless lending and collateral management service. Equally important to TRS is the borrower default indemnification provided by our custodial bank. The borrower default indemnification assures TRS that it can rely on the credit analysis and decisions made on its behalf and that such decisions will be made in a fashion that the objectives of TRS and the custodial bank are aligned in such decision. Further, per Texas Government Code Section 825.303, in order for a bank to be eligible to lend securities on behalf of TRS, the bank must "execute an indemnification agreement satisfactory in form and content to the retirement system fully indemnifying the retirement system against loss resulting from borrower default or the failure of the bank or brokerage firm to properly execute the responsibilities of the bank or brokerage firm under the applicable securities lending agreement." The inability of our custodial bank, or any other U.S. SIFI agent bank, to provide borrower default indemnification would leave TRS with three difficult choices; (i) cease securities lending, (ii) operate its own lending program (with the attendant and exorbitant systems and other resource costs) or (iii) retain the securities lending services of a non-U.S. institution. Considering the prohibitive financial impact of the first two options, TRS could well be left with the undesirable result of shifting it securities lending offshore, as the Texas Government Code further requires lending agents "be experienced in the operation of a fully secured securities loan program and maintain adequate capital in the prudent judgment of the retirement system to assure the safety of the securities. Thereby, nearly all U.S. based agent lenders that meet the criteria set out by the Texas Government Code would likely be significantly impacted by the Proposed Rules.

Sincerely,

Jerry Albright
Deputy Chief Investment Officer
Teacher Retirement System of Texas

cc: Mark Van Der Weide, Senior Associate Director