



Via Email

June 22, 2011

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

*Re: Docket No. R-1415 and RIN 7100 AD74, Margin and Capital Requirements for Covered Swap Entities*

Dear Ms. Johnson:

I am writing on behalf of the Council of Institutional Investors (Council), a nonpartisan and nonprofit association of public, union and corporate pension funds with combined assets exceeding \$3 trillion.<sup>1</sup> Council members are large, long-term investors responsible for protecting the retirement savings of millions of American workers. The purpose of this letter is to respond to your request for feedback on the Board of Governors of the Federal Reserve System's (Federal Reserve Board) proposed rules on margin requirements for covered swap entities.

The Council believes that swaps and security-based swaps involving a nonfinancial end user should not be exempt from margin requirements, as requiring margin reduces risk to taxpayers and to the financial system. This position is consistent with the recommendations of the Investors' Working Group (IWG),<sup>2</sup> a blue ribbon panel of industry and market experts. According to the IWG's 2009 report, "All OTC trades should be subject to federally imposed margin requirements."

The Council's stance is also supported by the legislative history of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). In its report on the "Restoring American Financial Stability Act of 2010" bill used as the base text for the Dodd-Frank Act, the Senate Committee on Banking, Housing, and Urban Affairs identified mandating margin requirements for uncleared swaps as a key measure to help create a safer derivatives market and "reduc[e] costs and risks to taxpayers, end users, and the system as a whole."<sup>3</sup> Enhancing the safety of the derivatives market is

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<sup>1</sup> For more information about the Council and its members, please visit our Web site at <http://www.cii.org>.

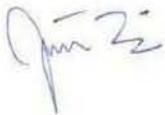
<sup>2</sup> The IWG was an independent, nonpartisan commission sponsored by the CFA Institute and the Council to provide an investor perspective on ways to improve, in an efficient and cost-effective manner, the regulation of the U.S. financial markets. The IWG's full report and recommendations are available at <http://www.cii.org/iwgInfo>.

<sup>3</sup> Report of the Senate Committee on Banking, Housing, and Urban Affairs on S. 3217, the "Restoring American Financial Stability Act of 2010," p. 27.  
<http://banking.senate.gov/public/files/S3217CommitteeReportPosted.pdf>

enormously important. In the words of Federal Reserve Board Chairman Ben Bernanke, "Making derivatives safer is a very important part of solving too-big-to-fail."<sup>4</sup>

If you have any questions or need any additional information, please feel free to contact me at (202) 261-7088 or [justin@cii.org](mailto:justin@cii.org).

Sincerely,



Justin Levis  
Senior Research Associate

cc: Mr. John Walsh, Acting Comptroller of the Currency, Office of the Comptroller of the Currency, Department of the Treasury  
Mr. Robert E. Feldman, Executive Secretary, Federal Deposit Insurance Corporation  
Mr. Gary K. Van Meter, Acting Director, Office of Regulatory Policy, Farm Credit Administration  
Mr. Alfred M. Pollard, General Counsel, Federal Housing Finance Agency

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<sup>4</sup> Testimony of Ben Bernanke, Federal Reserve Board Chairman, to the Senate Banking Committee, 12/3/09.