



Via Electronic Submission

May 9, 2011

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

Re: Financial Market Utilities (Regulation HH; Docket No. R-1412)<sup>1</sup>

Dear Secretary Johnson,

I am writing on behalf of the Council of Institutional Investors (Council), a non-profit association of corporate, public and union pension funds with combined assets that exceed \$3 trillion. The Council appreciates the opportunity to provide comments on the above referenced proposal, which would provide systemically important financial market utilities (Designated FMUs) with reporting and risk-management standards subject to Federal Reserve supervision (Proposed Rule).

Designated FMUs provide critical infrastructure enabling financial markets to function effectively. Weak governance practices and poor risk management procedures at Designated FMUs could pose hazards both to participating financial institutions as well as the market as a whole. Consistent with the Council's advocacy for good governance and responsible risk management,<sup>2</sup> we share the following comments regarding the oversight of Designated FMUs by the Federal Reserve Board (Board).

Proposed Rule Section 234.3

The Council supports requiring Designated FMUs that operate payment systems to establish clearly defined procedures for risk management and ensure that payment systems' governance arrangements are effective, accountable and transparent.

Proposed Rule Section 234.4

The Council supports requiring Designated FMUs that operate as a central securities depository or central counterparty to have clear and transparent governance arrangements that promote risk-management procedures.

Proposed Rule Section 234.5

The Council supports the inclusion of governance in the list of matters for which changes may have a material impact on the nature or level of risks presented by

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<sup>1</sup> Available at <http://edocket.access.gpo.gov/2011/pdf/2011-7812.pdf>.

<sup>2</sup> The Council's policies are available at <http://www.cii.org/policies>.

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Designated FMUs. We agree that changes in governance arrangements are important enough to warrant advance notice to and clearance from the Board.

The basis for our support of the above-referenced Proposed Rule Sections derives from three Council member-approved policies. First, the Council's "Statement on the Value of Corporate Governance" provides that good governance serves shareowners' long-term interests and that "shareowners, other investors and other stakeholders benefit when rules and regulations provide adequate protections..."<sup>3</sup> Second, the Council's "Statement on Financial Gatekeepers" calls for greater transparency and accountability from financial market participants and more vigilant regulatory oversight of such gatekeepers.<sup>4</sup> Finally, Section 2.7 of the Council's Corporate Governance Policies, entitled "Board's Role in Risk Oversight," draws a clear connection between risk oversight and governance arrangements.<sup>5</sup>

The Council appreciates the opportunity to comment on the Proposed Rule. If you have any questions about our views, please do not hesitate to contact me at [glenn@cii.org](mailto:glenn@cii.org) or (202) 261-7097.

Sincerely,



Glen Davis  
Senior Research Associate

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<sup>3</sup> The Statement on the Value of Corporate Governance is available at <http://cii.org/UserFiles/file/Statement%20on%20the%20Value%20of%20Corporate%20Governance.pdf>.

<sup>4</sup> The Statement on Financial Gatekeepers is available at <http://cii.org/UserFiles/file/Statement%20on%20Financial%20Gatekeepers.pdf>.

<sup>5</sup> See Section 2.7 at <http://cii.org/UserFiles/file/CII%20Corp%20Gov%20Policies%20Full%20and%20Current%2009-29-10%20FINAL.pdf>.