NORTH CAROLINA

OFFICE OF THE TREASURER **JANET COWELL, TREASURER**

November 30, 2016

Via Electronic Submission

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, N.W.
Washington DC 20551

RE: Notice of Proposed Rulemaking Regarding Restrictions on Qualified Financial Contracts of Systemically Important U.S. Banking Organizations and the U.S. Operations of Systemically Important Foreign Banking Organizations
Docket No. R-1538; RIN 7100 AE-52

Dear Mr. Fierson:

The North Carolina Department of State Treasurer ("Department") appreciates this opportunity to comment on proposed rulemaking related to certain qualified financial contracts. The Department fulfills multiple functions on behalf of the State of North Carolina, including investing the pension assets of nearly one million teachers, first responders, civil servants, and other beneficiaries and the operating funds and long-term assets of the State and certain local government units. Repurchase agreements, typically with an overnight term, are one of our most important portfolio management tools. They help the Department to provide retirement security for these nearly one million middle-class pensioners and to add value for local governments, both large and small, across the state.

The Department understands and supports the Federal Reserve's goal of maintaining the stability of systemically important financial institutions as long as they continue to fulfill the obligations of their contracts. Certain repurchase agreements allow lending institutions, like the Department, to close out the transaction prior to the end of their contractual term in the event that the parent borrowing institution goes into receivership. We believe that permitting lenders to take this step while their counterparty continues to meet their obligation is similar to allowing lenders to exercise a "put" to demand cash or collateral and creates the potential for material liquidity shocks and solvency concerns.

However, the proposed rule encompasses qualified financial contracts that operate on an overnight basis as well as longer terms. Unlike longer term arrangements, overnight contracts present immaterial risk of creating negative liquidity surprises that might compromise the solvency of an otherwise stable financial institution. By definition, both borrower and lender agree that the contract will mature daily. The financial institution, as borrower, must close out with the lender within a period of hours in order to fulfill their contractual obligations.

The Department requests that the Federal Reserve explicitly exclude overnight contracts from the scope of any final rule that it may adopt. We believe that excluding overnight repurchase agreements from the scope of the contemplated rule will actually make it more likely that such contracts remain viable funding sources during periods of elevated liquidity concerns for systemically important financial institutions. In turn, the Department and other similarly-situated institutional lenders would continue to be able to meet the daily liquidity needs of pensioners and local governments, the latter of which depend on access to this money to meet their obligations and maintain their credit.

Thank you for this opportunity to comment on the Federal Reserve's proposed rulemaking on certain qualified financial contracts.

Respectfully,

Kevin SigRist

Kevin SigRist
Chief Investment Officer
North Carolina Department of State Treasurer