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PRESS RELEASE

Public Plan Investors Announce Market Regulation Reform Principles

Transparency, Regulatory Independence and New Agency to Prevent Systemic Risk Are Critical for Restoring Confidence in Capital Markets

The leading public pension funds of the United States, which collectively invest more than \$900 billion in global markets, have developed and announced a set of five financial regulation principles aimed at restoring trust and confidence in the global capital markets.

The “Principles of Financial Regulation Reform: A Model for Change” was developed over the last several months in response to the unprecedented instability of worldwide markets.

The key elements of the principles are:

1. Greater disclosure and transparency;
2. True regulatory independence;
3. An increased and effective shareowner voice in the capital markets;
4. Earlier identification by regulators of issues that give rise to overall market risk that threaten global markets; and
5. The preservation of institutional investors’ freedom to invest in the full range of investment opportunities.

The principles emphasize expanding requirements for disclosure of financial activity -- including security trading, participant accounting, credit rating activity and counterparty exposure; an end to “forum” shopping by realigning and restructuring the existing U.S. regulatory model, including re-establishing the U.S. Securities and Exchange Commission as the protector of investors and providing it the appropriate resources to achieve its mission.

In addition, the principles call on regulators to recognize the role shareowners can play in serving as a “warning” system on market developments that affect market stability.

The principles also stress the critical nature of preserving public pension funds' ability to invest in all capital markets to meet their fiduciary obligations. Adding constraints that might undermine the ability of public pension plans to generate investment returns to fund retirement benefits may decrease diversification and add risk to the plans.

The public pension plan group also calls for the establishment of an independent entity that can monitor the world markets for the potential for widespread financial losses or market disruption, such as the failure of a key capital producing institution, on a global scale. Such an agency would need to have funding autonomy, enforceable data collection powers, and the resources to use the data to identify potential risks.

The public pension plans that have endorsed these principles include:

California Public Employees' Retirement System
California State Teachers' Retirement System
Colorado Public Employees' Retirement Association
Connecticut Retirement Plans and Trust Funds
Los Angeles City Employees' Retirement System
Los Angeles County Employees' Retirement System
Los Angeles Fire and Police Pensions
Maryland State Treasurer
New York State Common Retirement Fund
State Universities Retirement System of Illinois

The principles will provide the framework for discussions by individual pension funds and the group with the Administration, Congressional and regulatory leaders and will be disseminated broadly as a model for public policy in the future.

The group issued the following statement: "We hope these market principles will significantly contribute to the solutions that will make markets more effective and restore investor confidence. We stand ready, individually and collectively, to help make that happen."

Below are statements of support by individual endorsers:

"These principles are critical to restoring trust and accountability in our financial markets and will help prevent further erosion in the future," said Rob Feckner, President of the CalPERS Board of Administration. "These are critical to protecting the retirement security of the public employees we represent and all investors in the market."

“These troubled times demand immediate action by all with a stake in strengthening the marketplace. Institutional investors have a unique voice to articulate how to build the economy for long-term value,” said Jack Ehnes, CalSTRS Chief Executive Officer. “That voice comes through loud and clear in these principles.”

Maryland State Treasurer Nancy Kopp said: "It is important to remember that these public investors represent the financial wellbeing of millions of working and retired citizens and their families. The public funds are broadly diversified and therefore directly affected by the inadequacy of financial institutions and disfunction in the capital markets. Sensible regulatory structures must be rebuilt and modernized to protect the public interest."

Principles of Financial Regulation Reform:

The Principles of Financial Regulation Reform seek to restore confidence in the capital market system by addressing:

Transparency – The provision of greater transparency and visibility to investors, regulators and other market participants is of paramount importance. Market structures must insure the appropriate disclosure of all financial security trading activity (listed and over-the-counter), participant accounting (on and off balance sheet), credit rating agency activity and counterparty exposure. Disclosure of this information must protect proprietary property while enabling sufficient access for the various participants (regulators, intermediaries, investors and capital raising enterprises) to adequately understand and assess the risks attached to their activities.

Independence – There is a need to reassert the independent mission of the regulating agencies to protect the investor and stability of the system. Realignment and restructuring the existing regulatory agencies to eliminate forum shopping is desirable. The application of similar rules to institutions performing similar marketplace functions and provision for the necessary flexibility for regulators to respond swiftly to new product innovations and evolving market practices are critical. NRSRO regulatory reform requiring greater transparency and independence is needed.

Re-establishment of the SEC’s role as a voice and protector of investors is overdue and critical. The Agency requires adequate tools, staffing and financial resources to carry out its mission of investor protection. Regulatory changes need to recognize that investor protections must be tailored to the type of investor and type of investment product, rather than a “one-size-fits-all” approach. For example, enhanced protections for institutional investors may take the form of tools (e.g., enhanced disclosures by issuers) that such sophisticated investors may use to protect themselves, in contrast to “bright line” regulatory requirements to protect retail customers of standardized investment products.

Corporate Governance – Recognition of the role institutional investors perform in the capital markets, and their attendant responsibilities and obligations, is vital. While institutional investors support greater shareholder rights they also recognize the responsibility which comes with such rights and their need to stay vigilant in the capital markets. Providing a forum for institutional investors to communicate with policy makers on developments in the markets enables institutional investors to assist financial market regulators by serving as an “early warning” system on market developments that raise systemic risk and overall market stability, prudential, or investor protection concerns.

Investment Opportunities – The ability to invest, consistent with fiduciary responsibilities, in an unconstrained investment opportunity set is critical to enable public pension funds to meet their obligations. Any limitations on the universe of available investments will potentially reduce the ability of these funds to generate the needed returns and may increase the risk of the plan.

Systemic Risk – For this purpose, systemic risk is defined as the potential of widespread financial losses or market disruption caused by:

- The failure of an institution with a likely consequence of further defaults and organizational failure.
- A market with one-sided (purchase or sale) participation that causes destabilizing short-term price shifts with the potential to cause significant organizational or institutional failures.

Mitigation of systemic risk in the financial markets appears best facilitated by an independent entity with funding autonomy, enforceable data collection powers, the capability to analyze the collected data to identify pending risks, and the duty to disclose the metrics indicative of the perceived risks. Information accessible to this entity must include any type of transactional, financial instrument, asset and liability data associated with any market participant. Proprietary information collected in this activity needs to be kept confidential while aggregated metrics must be publicly disclosed.

Utilization of this information to mitigate the perceived systemic risks could be coordinated through the established financial regulatory channels to avoid jurisdictional confusion. Global coordination of this activity is extremely desirable to maximize the efficacy of the effort.

In summary, we believe addressing these reform areas will significantly contribute to the restoration of confidence in the capital market system.

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