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June 28, 2013

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland
Via e-mail: baselcommittee@bis.org

Re: Consultative Document – Supervisory Framework for Measuring and Controlling Large Exposures

Dear Sir/Madam:

Oregon State Treasury welcomes the opportunity to comment on the Consultative Document ("Consultation") issued by the Basel Committee on Banking Supervision ("Basel Committee") regarding the measurement and control of large exposures. The Office of the State Treasurer ("Oregon State Treasury") is responsible for the investment function of one of the largest public employee retirement systems in the United States, providing retirement benefits to over 118,000 retired individuals. In connection with meeting its funding obligations, Oregon State Treasury invests globally, with diversified holdings and total assets of $79 Billion as of December 31, 2012. While we agree with the core objective of reducing global systemic risk with a uniform large exposure framework, we have certain reservations about the Basel Committee's proposed framework ("the large exposure framework"). Specifically, we are concerned that implementation of the large exposure framework may result in a contraction in indemnified securities lending activities. Such a contraction would likely have negative consequences for credit markets and market liquidity in general, and significantly reduce Oregon State Treasury's securities lending revenue in particular.

Since1997, our U.S. custodial bank has been providing custody, securities lending and related services to Oregon State Treasury. During the last 10 years, our securities lending activities have generated over $306 Million in incremental revenues to Oregon State Treasury. Not only is this revenue stream a critical offset to numerous administrative expenses, it also assists the State of Oregon in meeting its pension liabilities. In discussions with several other market participants, we have become aware of the large exposure framework's methodology for determining securities lending and other credit exposures, and now believe that the application of

that methodology may result in as much as a 50% reduction in global securities lending revenues.

Oregon State Treasury strongly urges the Basel Committee to better align the large exposure framework's credit exposure calculations with actual credit risk incurred by indemnification providers. As stated above, we have been engaged in securities lending for over 16 years with our current custodial bank and have not suffered losses as a result of either cyclical market forces or specific credit events. We engage in and continue to support securities lending activities for their incremental revenue potential, and are cognizant and appreciative of the role these activities play in promoting efficient, global capital markets through enhanced price discovery and better market liquidity.

We also feel it is important to stress the vital role that our custodial bank plays as our securities lending agent. Oregon State Treasury relies on its custodial bank's robust trading, operations and credit functions to provide seamless lending and collateral management services. Equally important to Oregon State Treasury is the borrower default indemnification provided by our custodial bank. The borrower default indemnification assures Oregon State Treasury that it can rely on the credit analysis and decisions made by its custodial bank, and that such decisions will be made in alignment with both the objectives of Oregon State Treasury and the custodial bank. The inability of our custodial bank, or any other regulated financial institution, to provide borrower default indemnification would leave Oregon State Treasury with three difficult choices: (i) cease securities lending activities; (ii) operate its own securities lending program (with the attendant and exorbitant systems costs and other resource requirements); or (iii) retain the securities lending services of a second tier, non-regulated institution. Considering the prohibitive financial impact of the first two options, Oregon State Treasury could well be left with the difficult task of retaining a non-regulated securities lending agent, significantly increasing the risks to our investment program.

Again, we request the Basel Committee revise the Consultation to better align credit exposure calculations in the large exposure framework with actual credit risks realized by the parties to securities lending agreements. Thank you for your consideration in this matter, and please do not hesitate to contact me with any questions or requests for additional information.

Sincerely,

John D. Skjervem
Chief Investment Officer
Oregon State Treasury

cc: Ted Wheeler
State Treasurer