

POLICY RESOLUTION MARKET REFORM

WHEREAS, public pension plans, with combined assets of more than \$2.5 trillion, are significant long-term participants in global financial markets, with professionally managed, broadly diversified investment programs designed to achieve the best possible investment yields consistent with the protection of plan assets and the standards of prudence imposed upon funding fiduciaries; and

WHEREAS, such investment income historically has provided 70% to 80% of the overall funding of public pension plans, helping to ensure the retirement security of millions of public employees, retirees, and their families while reducing the financial support required by state and local taxpayers as well as plan participants; and

WHEREAS, sharp drops in global financial markets have produced significant losses for all investors, including public pension plans, who have shared in the recent extraordinary market decline; and

WHEREAS, this global economic crisis revealed significant gaps and weaknesses in the oversight and regulation of financial firms, markets and other institutions, such as credit rating agencies, that resulted in an unacceptable level of systemic risk and an inability to supervise, prevent, or otherwise appropriately address levels of risk as they developed, to the detriment of all investors; and

WHEREAS, investor confidence in the integrity of the overall financial system has seriously suffered as a consequence; and

WHEREAS, restoring trust in the viability of capital markets is critical to securing a sustainable recovery for the nation's economy as well as to maintaining the financial soundness of public pension plans and their continued ability to meet their long-term pension obligations; now therefore be it

RESOLVED, that the National Council on Teacher Retirement urges Congress and the Administration to act expeditiously to restore stability to the financial system by strengthening existing market regulatory structures, including the adequate funding thereof; addressing lapses, gaps and inconsistencies in regulatory coverage; providing increased and enforceable accountability to investors and expanding investor safeguards; and comprehensively addressing the measurement of and responses to systemic risk without unduly inhibiting market innovations; and be it further



RESOLVED, that the National Council on Teacher Retirement believes that a lack of adequate transparency has been one of the most significant factors in the economic collapse; that the responsible disclosure of (i) all trading activity related to financial securities, (ii) participant accounting, (iii) credit rating agency methodologies and other activities, and (iv) counterparty exposure is essential in order to assess systemic risk and develop meaningful solutions to the problems such risk creates; and that any comprehensive and effective reform of the regulation of financial markets must therefore have enhanced transparency at every level as a core element; and be it further

RESOLVED, that the National Council on Teacher Retirement believes that credit rating agencies, on which investors rely for timely, accurate information needed to make informed investment decisions, have inherent conflicts of interest in their current compensation structure, and little legal liability for their ratings; that the credibility of the credit ratings issued by the rating agencies has been seriously diminished as a result; and that any comprehensive and effective reform of the regulation of financial markets therefore should provide for increased oversight of credit rating agencies with real standards of accountability to users, and should effectively address conflicts of interest, including aggressive enforcement of SEC rules prohibiting a credit rating agency from issuing a rating for an investment vehicle where the rating agency made recommendations about the structure of such investment product; and be it finally

RESOLVED, that the National Council on Teacher Retirement believes that the current right of public pension plans to invest in the widest possible range of opportunities across all capital markets, consistent with their fiduciary standards and duties, is essential to public pension plans' ability to achieve the best possible investment returns for their participants and beneficiaries at the lowest risk, and should not be subject to Federal limitations or restrictions.

Submitted by: NCTR 2009 Legislative Committee

