THRIFT SAVINGS PLAN

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

GREGORY T. LONG
Executive Director

April 10, 2008

MEMORANDUM FOR BOARD MEMBERS SAUL, FINK, WHITING, SANCHEZ, & DUFFY

FROM: GREG LONG
Executive Director

SUBJECT: BGI - Counterparty Risk

At the March 17, 2008, Board meeting, Mr. Fink expressed concern regarding counterparty risk in the securities lending program that is administered by BGI for the Thrift Savings Plan. Ms. Ray noted that the collective trusts managed by BGI receive collateral for all securities on loan, 102% of the value of the security lent for US securities and 105% for foreign securities. She additionally noted that the collateral is primarily cash. The Board expressed interest in receiving a memo from BGI addressing counterparty risk in the program. That memo is attached. Blake Grossman and Michael Williams from BGI will also be in attendance at the April 21, 2008, Board meeting to address any questions the Board may have and to discuss current market conditions. Biographical information on Mr. Grossman and Mr. Williams, follows:

BLAKE R. GROSSMAN
Chief Executive Officer
Managing Director

Blake Grossman is Chief Executive Officer of BGI. He has served as CEO or co-CEO since 2002, and previously was global Chief Investment Officer with responsibility for the Advanced Active Strategies Group, the unit focused on BGI's systematic active, enhanced and hedge fund strategies globally. He is a member of BGI's Executive Committee and a board member of Barclays Global Investors UK Holdings Limited. Blake founded BGI's Advanced Strategies Group in 1992, after serving as head of BGI's index and enhanced equity strategies group, and joined BGI in 1985. His research on the investment implications of divestment decisions, co-authored with William F. Sharpe, was awarded a Graham and Dodd Award by the Financial Analysts Journal in 1986. He graduated Phi Beta Kappa from Stanford University, where he received BA and MA degrees in economics.

H. MICHAEL WILLIAMS
Head of Global Index and Markets Group US
Managing Director

Mike Williams is responsible for BGI's Global Index and Markets Group(GIMG) in the US which includes securities lending and cash management globally, US equity and commodities indexing, transitions and asset allocation/solutions. Prior to this role, he managed the global securities lending business. Mike has held a variety of trading and portfolio management roles in GIMG since joining BGI in 1993. Prior to joining BGI, Mike was a vice president at Banc of America Securities LLC in both corporate trading and sales, and corporate finance. Before that, Mike was a consultant at DRI/McGraw-Hill. Mike is a member of BGI's Americas Executive Committee and a Trustee of the University of California, Berkeley Foundation. Mike received an AB in economics from the University of California at Berkeley and an MBA in finance from the UCLA Anderson School of Management.

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MEMO

BARCLAYS GLOBAL INVESTORS

Date	April 10, 2008
To	Tracey Ray
cc	Lilian Wan, Trey Heiskell, Tony Shorney
From	Jennifer Barker
Subject	**Management of Counterparty Risk**

Securities lending involves exposure to counterparty risk, or the risk that the borrower will not return the borrowed securities. Careful screening of borrowers and a strict collateralization policy serve to mitigate this risk.

Borrower selection and monitoring

BGI has a dedicated group, the Global Credit Group ("GCG"), that is responsible for rigorous credit screening of counterparties to determine capital adequacy, liquidity, and operational efficiency. The limits established by the GCG are essential for controlling credit risk. In addition, the BGI Global Risk & Compliance Committee ("GRCC") establishes the policies for borrower approval and regularly reviews borrower limits and creditworthiness.

GCG performs a comprehensive review of potential counterparties through the examination of financial statements, minimum capitalization levels, business reputation, lines of business, credit enhancements (if any), earnings, management quality, the scope of business operations, and overall operational expertise. Counterparties are classified into tiers of credit quality and are classified as either "primary" or "secondary." Only primary counterparties are permitted for securities lending.

Each primary counterparty is reviewed annually and receives a lending limit tied to the total allowable credit exposure and the counterparty's credit review and ranking. BGI relies on on-going independent financial reviews, credit ratings, and on-site visits to ensure that we have assigned the appropriate credit limits to each borrower. During periods of high volatility, GCG may review borrowers more frequently, depending on the circumstances. Furthermore, if the financial condition of a borrower deteriorates, GCG reviews the exposure limits and types of transactions involved and makes changes as required. These changes may include: 1) terminating the counterparty relationship; 2) shortening maturities of further transactions; and/or 3) limiting further business to those types of transactions which incur acceptable risk.

The management of lending exposure and risk is further supported by our dedicated lending platform, which has an electronic interface to the credit system, and allows for continuous and real-time monitoring and control of lending positions against limits.

BGI has well defined policies and procedures in place to manage the unlikely event of a borrower default. BGI's Legal group, in conjunction with securities lending senior management, would determine that a default occurred and recommend a course of action from the remedies available under the lending contract with the counterparty. BGI has an integrated systems capability that aggregates all securities on loan to, and all collateral held from, a particular borrower. This program allows BGI to automatically generate trade lists which would instruct the appropriate BGI trading desks to liquidate the cash collateral from a defaulted borrower and repurchase the loaned securities in the market.

On a regular basis, BGI conducts broker default simulations that are coordinated globally. The process that would be required to unwind and terminate all transactions with a defaulting broker is simulated in order to ensure preparedness and to verify that all operational procedures are defined, functioning, and thoroughly understood.

In the history of BGI's lending program, BGI has had only two counterparties that were deemed to be in default on their obligations under the lending contract (Drexel Burnham Lambert in 1990 and Barings Bank in 1995). In both cases, BGI was able to re-constitute the lent portfolio within one day of the default. Also, in both cases the repurchase transactions, net of all associated expenses, resulted in excess collateral, which was returned to the borrowers.

Collateralization process

Another major element for controlling counterparty risk within the securities lending process is the provision by borrowers of proper collateral for all outstanding loans. New loans are collateralized at 102% for US securities and 105% for non-US securities of the market value of the securities on loan. All outstanding loans are marked to market daily, based on the most recent closing price.

Borrowers are required to deliver collateral simultaneously with, or prior to, the delivery of the securities to assure collateral maintenance. A daily mark-to-market procedure assures that the value of the collateral continues to represent at least 102% (or 105% for non-US securities) of the value of the lent securities. Prior day's prices received from external vendors and cleansed by BGI's Data Services Group are used to price the securities on loan. For any loans that fall below the minimum collateral requirements, the Securities Lending Operations Group will notify the borrower and request that additional collateral be delivered on the same day.

BGI can accept cash and non-cash collateral in exchange for a loan. While BGI does not set limits on the amount of cash vs. non-cash collateral that is accepted per counterparty, in practice nearly all (99%) loans from the funds in which the Thrift Savings Plan invests have US dollars posted as collateral. Acceptable non-cash collateral includes securities issued or guaranteed by the US government or its agencies or instrumentalities and irrevocable letters of credit issued by a major bank and approved by BGI.