March 29, 2020

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Release No. 34-87607; IA-5413; IC-33704; File No. S7-24-15
Use of Derivatives by Registered Investment Companies and Business Development Companies

Dear Ms. Countryman:

TPG Specialty Lending, Inc.[1] is responding to the request of the Securities and Exchange Commission (the "Commission") for comments in response to the above-captioned release (the "2019 Release") re-proposing Rule 18f-4 (such rule, as proposed, "Rule 18f-4") under the Investment Company Act of 1940, as amended (the "Investment Company Act"). If adopted, Rule 18f-4 would regulate the use of derivatives and other transactions by mutual funds (other than money market funds), exchange-traded funds, registered closed-end funds and business development companies ("BDCs") under the Investment Company Act (collectively, "funds"). We recognize the time and effort invested by the staff of the Commission in formulating the revised proposal of Rule 18f-4, including taking into consideration the feedback provided on the original proposed version of Rule 18f-4 published in Release No. IC-31933 in 2015 by commenters, including BDCs, and we appreciate the opportunity to comment on Rule 18f-4 as proposed in the 2019 Release.

We are a specialty finance company focused on lending to middle-market companies and have elected to be regulated as a BDC under the Investment Company Act. We are structured as an externally managed, closed-end management investment company. We have operated as a BDC since we began our investment activities in July 2011 and have been publicly listed on the New York Stock Exchange under the ticker "TSLX" since March 2014. TSL Advisers, LLC acts as our investment adviser and administrator. We and TSL Advisers, LLC are part of the Sixth Street Partners platform, which had over $34 billion of assets under management as of December 31, 2019.

We agree with the staff's view that certain types of derivative transactions used by funds to hedge single risks related to specific investments by the fund do not raise the investor protection concerns underlying Section 18 of the Investment Company Act (as modified by Section 61, with respect to BDCs), but are concerned that the scope of the "hedging exception"

[1] References in this comment letter to "we," "us," "our" or "TSLX" refer to TPG Specialty Lending, Inc.

prong[2] of the definition of "limited derivatives users" in proposed Rule 18f-4 is too narrow. While the "hedging exception" covers currency derivatives, it excludes, we think incorrectly, similar types of derivatives, such as interest rate swaps, which are also frequently used by funds that invest in credit instruments (including BDCs such as TSLX) to hedge interest rate risk tied to specific investments or to the fund's borrowings. Notably, as with currency hedges, such interest rate swap arrangements are used by funds for risk management rather than investment purposes. As a result, contrary to the investor protection goal of the Commission in proposing Rule 18f-4, we believe that by failing to include other derivatives used for hedging purposes, such as interest rate swaps, the definition would, in many cases, result in additional and unintended risks to a fund's investors. Therefore, we believe modifications to the definition of limited derivatives users described in this letter are necessary and appropriate.

I. Use of Derivatives For Hedging Purposes by BDCs, Including TSLX

The 2019 Release notes that the staff reviewed the use of derivatives by a sample of BDCs, and believed that most BDCs either would not use derivatives or would rely on the exception for limited derivatives users.[3] The staff noted that a few BDCs used derivatives more extensively on a gross notional basis, mainly due to interest rate swaps, which, the Release said, would likely have lower adjusted notional amounts if converted to ten-year bond equivalents, as permitted by the definition of "derivatives exposure" in Rule 18f-4. However, the staff was unable to apply this proposed adjustment to its sample of BDCs.

As described below, TSLX has used both currency and interest rate-focused derivatives in a limited and clearly articulated way that is designed to mitigate risk against existing exposures, not for speculative or leverage purposes. Notably, we believe our use of such derivatives for exclusively risk management purposes is consistent with how our BDC peers utilize such instruments.

a. Currency Hedging

Rather than borrowing amounts under our revolving credit facility in U.S. dollars to fund our foreign currency-denominated investments and using a currency derivative to hedge associated currency risks, our approach is to borrow the par value of the investment in the investment's local currency directly under the multi-currency tranche of our revolving credit facility. Movement in the translation of our outstanding foreign currency-denominated borrowings are approximately offset by the conversion rate of the foreign currency-denominated investment, and any non-offsetting gain or loss to the investment is attributed to the impact of the fair value of credit-related factors. When the investment is repaid, we repay the corresponding foreign currency amount borrowed under the facility.

Prior to the establishment of the multi-currency tranche under our revolving credit facility, we used currency hedging derivatives with notional amounts equal to the par value of the investment to ensure the same outcome as described above. However, our ability to borrow

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[2] *See* Proposed Rule 18f-4(c)(3)(ii).

[3] *See* 2019 Release, at 111 (Of the 48 BDCs sampled by the Staff of the Division of Investment Management (the "Staff"), 54% did not report any derivatives holdings, and an additional 29% reported having derivatives portfolios with gross notional amounts below 10% of its net assets).

under our multi-currency revolving credit facility has enabled us to implement the same strategy more efficiently without the use of derivatives. As of December 31, 2019, the fair value of investments denominated in foreign currency amounted to 6.5% of our portfolio, including investments denominated in Australian dollars, Canadian dollars and Euros. In each case, the foreign currency investment was funded through a corresponding foreign currency denominated borrowing of the par value of the investment through our multi-currency revolving credit facility, and we had no currency derivatives outstanding.

b. Interest Rate Hedging

Even though we have decreased our use of currency hedging derivatives over time as described above, we continue to use derivatives in the form of interest rate swaps in order to manage our risk positions and align the interest rate exposure of our liabilities with the interest rate exposure of our investment portfolio (i.e., a "match funding" approach to risk management). When we make investments in fixed-rate securities or issue fixed-rate debt, we use derivatives with the same notional amount and maturity to, in effect, swap the fixed-rate interest payment due to us or owed by us to a floating-rate one. Our interest rate swaps, which are centrally cleared through the Chicago Mercantile Exchange Group, are typically settled on a quarterly basis, with the net settlement amount for each swap flowing through either interest income or interest expense in our financial statements, as appropriate for the corresponding asset or liability being hedged. This approach allows us to better manage our interest rate exposure to both assets and liabilities, as we are fundamentally spread-based investors, not macro-economists, and hence we are relatively rate agnostic. As a result, from the perspective of our investors, changes in our net investment income are primarily driven by the spread between the payments we receive from our investments in our portfolio companies against our cost of funding, rather than by changes in interest rates.

At December 31, 2019, 99.2% of our investment portfolio based on fair value consisted of floating rate investments, including 4.2% that are fixed-rate investments for which we have entered into interest rate swaps in order to convert our exposure to floating rate. The swaps had a total notional amount of $106.4 million, matching the par value of those fixed-rate investments. Also, as of December 31, 2019, we had outstanding $622.5 million of fixed-rate debt securities. Since our first issuance in 2014 shortly after our IPO, in connection with each issuance of fixed-rated debt, we have also entered into interest rate swaps with the same notional amounts as the principal amount and the same maturity date as the related underlying fixed-rate debt instrument. As a result, all of our borrowings are also effectively at floating rates.

We disclose each of our derivative positions in our consolidated schedule of investments in our financial statements, which is summarized in the table below as of December 31, 2019:

	Interest Rate Swaps as of December 31, 2019			
	Company Receives	Company Pays	Maturity Date	Notional Amount
Interest rate swap	L	1.97%	6/25/2020	$ 91,500
Interest rate swap	L	1.47%	7/30/2021	11,700
Interest rate swap	L	1.36%	7/29/2022	3,200
Interest rate swap	4.50%	L + 2.37%	8/1/2022	115,000
Interest rate swap	4.50%	L + 1.59%	8/1/2022	50,000
Interest rate swap	4.50%	L + 1.60%	8/1/2022	7,500
Interest rate swap	4.50%	L + 1.99%	1/22/2023	150,000
Interest rate swap	3.88%	L + 2.25%	11/1/2024	300,000
Total				$ 728,900

As described above, the total notional amounts of each of these swaps at inception matched the par value of the related fixed-rate investment, the principal amount outstanding of such series of TSLX-issued fixed-rate notes, and the maturity date of such underlying instrument. We further identify and describe each swap and the "matching" hedged instrument in the notes to our financial statements and discuss our use of derivatives for hedging purposes elsewhere in our 10-Ks and 10-Qs.

We have not and do not utilize interest rate swaps or other derivative instruments for speculative purposes.

c. Derivatives Exposure

Based on the notional amounts of our derivatives outstanding as of December 31, 2019, our unadjusted derivatives exposure under proposed Rule 18f-4 would be 65.1% of our net assets, as we do not use currency derivatives and would not be able to rely on the "hedging exception" under Rule 18f-4 as proposed, even though all of our interest rate swaps are also solely used for risk management purposes. A fund can qualify as a "limited derivatives user" under the "exposure exception" of the proposed rule if its derivatives exposure does not exceed 10% of its net assets.[4] As part of the calculation of its derivatives exposure under the "exposure exception," a fund can convert the notional amount of interest rate derivatives to 10-year bond equivalents. As of December 31, 2019, the total notional amount of our outstanding interest rate swaps was $728.9 million. Converting the notional amount of our interest rate swaps to 10-year bond equivalents results in an adjusted notional amount of $221.3 million or 19.8% of our net assets,[5] which is still above the 10% threshold of the "exposure exception" in the proposed rule.

[4] *See* Proposed Rule 18f-4(c)(3)(i).

[5] We performed this calculation by determining the price sensitivity or basis point value ("BPV") of each one of our interest rate swaps. The BPV is the amount by which each interest rate swap's value changes in response to a change of one basis point in the swap rate. The net BPV of our total interest rate swap exposure is estimated to be $224,173. In addition, we determined the BPV of 10-year US Treasuries to be $1,013. Dividing the BPV of our total outstanding interest rate swaps by the BPV of current 10-year Treasuries and then multiplying that amount by one million, we calculate an adjusted notional amount of $221.3 million ($224,173/$1,013)* 1,000,000 = $221.3 million). Our net assets at December 31, 2019 were $1.12 billion.

II. Derivatives Used To Hedge A Single Risk Do Not Raise Same Policy Concerns as Derivatives Used For Other Purposes

We believe that the fact that our derivatives exposure, even as adjusted, would remain in excess of the proposed 10% threshold under the "exposure exception" to qualify as a limited derivatives user under Rule 18f-4, even though all of our derivatives are used for risk mitigation purposes, demonstrates that the calculation for the "exposure exception" should be revised as it significantly overstates the risks to our investors introduced by our use of derivatives as described above. A blunt measure of aggregate notional value of our outstanding derivatives, even with the proposed adjustments, does not capture the fundamental underlying impact on the financial results on the business, yet we are unable to rely on the "hedging exception" due to its narrow scope. Given the use of interest rate derivatives in our business as a specific hedging tool, prohibiting a fund like ours from qualifying as a limited derivatives user for the purposes of the proposed rule appears contrary to the intention of the 2019 Release. We therefore believe that modifications to the proposed rules are appropriate to permit the type of risk management we have historically implemented through interest rate hedging instruments.

As articulated in the 2019 Release, the policy concerns behind regulating the use of derivatives by funds pursuant to Sections 18 and 61 of the Investment Company Act focus on the fact that the use of derivatives by funds may introduce or increase investment risks for a fund and its investors, as they may involve leverage (or the potential for leverage) that could magnify the potential for gain or loss on an investment. However, as the 2019 Release also recognizes, funds that use derivatives in a limited way or only for hedging purposes do not introduce the same types of additional risk as funds that use derivatives for leverage or to gain exposure to a market, sector or security without investing directly in the underlying security; such derivatives transactions are not speculative investments or bets on the direction of currency or interest rate movements. Importantly, notional amounts between hedges used for these different purposes are not equivalent—a higher notional amount of a derivative is not necessarily proportional to the risk and impact on the fund's portfolio. Notional amounts alone do not capture the underlying impact on the businesses' financial results that the hedge is designed to protect.

The 2019 Release acknowledges this limitation and includes currency derivatives in the "hedging exception." When currency derivatives are used to hedge specific currency risks in foreign currency-denominated fixed income investments held by a fund, the notional amount of the swap is equal (or nearly equal) to the par value of the investment. Any adverse changes in the conversion value of a fund's outstanding foreign-currency denominated investments are offset by the fund's corresponding hedge position in a currency swap or other currency hedging derivative instrument. From a policy perspective, we believe that interest rate swaps used for hedging purposes are conceptually the same as currency hedges. In both cases, the hedging derivative is used to offset a single risk (currency risk or interest rate risk), tied to a specific instrument in the fund's portfolio, equal in notional amount to the par value of that instrument, and not to gain exposure to that instrument. Yet, unfortunately, the "hedging exception" as proposed would only expressly cover currency swaps, and would provide only for an adjustment to the notional amount for interest rate swaps. Notably, the proposing release does not directly address why two derivatives used for the same purpose (hedging a single risk tied to a specific instrument) should be treated differently, if the purpose underlying both relates to risk management.

While derivatives used for hedging specific risks related to an investment or a borrowing may involve counterparty and other legal risks, those risks are not substantially different than those imposed by other, non-derivative contracts entered into by funds, and we agree that the principles-based policies and procedures required to be implemented under Rule 18f-4 by such "limited derivatives users" are sufficient to ensure appropriate consideration of these risks in both of these cases.[6] For example, in addition to the extensive disclosure on our use of derivatives in our public filings, our board has established a risk management committee, comprising members of the board as well as certain members of our management. As stated in the risk management committee's charter (which is made available for investors on our website and reviewed on an annual basis, consistent with our approach to all committees of the board), the risk management committee is responsible for assisting the board in its oversight of TSLX's overall risk tolerance and management of capital, liquidity, and fund planning and strategy. Among other risks, the risk management committee reviews TSLX's derivative uses as part of its oversight of TSLX's risk management.

III. Compliance With Rule 18f-4 As Proposed Would Discourage Use of Hedging Derivatives For the Purpose of Risk Management, Causing Funds to Revise Strategies and Increasing Risks to Investors

While we do not use derivatives for leverage or speculative purposes, as described above, our use of hedging derivatives plays a significant role in our risk management efforts which focus on the preservation of value for our investors. For a spread-based lender like TSLX, in a declining interest rate environment, when our borrowers are conceivably under the greatest pressure, the need for us to manage our risk positions and protect our shareholders' capital is elevated. During periods of market volatility, our ability to use interest rate swaps to match the interest rates of our assets and liabilities for purposes of managing our financial exposure becomes an even more important tool, particularly as it provides downside protection to our shareholders' capital and earnings in periods where our financial resources may be limited.

However, even though we use derivatives in a limited and clearly articulated way that is designed to mitigate risk against existing interest rate exposure, the additional elements of the 2019 Release that would apply to us if we were not considered a "limited derivatives user" would burden our shareholders and our business with incremental costs and compliance obligations that would be disproportionate to the 2019 Release's intended benefits. Given our use of derivatives in our business, these costs could outweigh the downside risk protection benefits that our hedging philosophy seeks to bring to our business and our shareholders.

In addition, despite our non-speculative use of derivatives, the additional compliance obligations of Rule 18f-4 would require us to either reduce our derivatives exposure promptly within the limits of the "exposure exception," or establish a more extensive derivatives risk management program consistent with the requirements of the rule. Part of the Commission's purpose in proposing Rule 18f-4 is that an anti-competitive landscape may develop among funds that use derivatives in the absence of Commission rules and guidance. However, the actual impact of the rule on us would be contrary to that goal: even though our use of derivatives is

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[6] We note that interest rate swaps, which are presently excluded from the "hedging exception," raise no additional counterparty or legal risks than currency swaps, which fall within the presently proposed "hedging exception."

conceptually no different than BDCs that use currency swaps and can be considered limited derivatives users, under the proposed rule we would either bear significantly more costs than those other BDCs, or would have to reduce our use of hedging derivatives (increasing the risk exposure of our investors), or both. We believe that requiring a fund to limit or eliminate an important tool used to manage and mitigate risk is not consistent with the Commission's mandate and puts our ability to protect investor capital at greater risk.

IV. Proposed Revisions to the Definition of Limited Derivatives Users

For the reasons set forth in this letter, we believe that the Commission should implement the following changes to the definition of "limited derivatives user" in Rule 18f-4, also attached in Exhibit A.

a. Expand Hedging Exception to Include Interest Rate Derivatives

Under the 2019 Release, the applicability of the "hedging exception" only to derivatives that hedge the currency risks associated with specific foreign currency-denominated equity or fixed-income investments held by the fund is too narrow and the adjustment to the notional amount of interest rate derivatives for similar hedging purposes is insufficient. We believe this approach is inconsistent with the Commission's goal in the 2019 Release to apply Rule 18f-4 in a manner commensurate with the risk of a fund's derivatives exposure.

We believe a more effective approach is to expand the scope of the "hedging exception" to include derivatives transactions that are used to hedge currency or interest rate risks associated with specific equity or fixed-income investments held by a fund, securities issued by the fund or other borrowings by the fund, provided that such derivatives are entered into and maintained by the fund for hedging purposes and that the notional amounts of such derivatives do not exceed the principal amount of the hedged instruments denominated in the foreign currency (or the par value thereof, in the case of fixed-income investments) by more than a negligible amount. As described above, interest rate derivatives in this context are substantially similar to the currency hedging derivatives already permitted because they hedge a single risk factor and are tied to a specific hedged instrument. Furthermore, such interest rate derivatives are used for the same risk management purposes as the currency hedging instruments already included within the scope the "hedging exception," and raise no additional counterparty or legal risks than such currency hedges.

b. Expand Hedging Exception to Include Derivatives Related to Fund's Borrowings, Including to Convert Fund's Fixed Rate Borrowings to Floating Rate Borrowings (or Vice Versa)

Given the broad use of credit facilities and fixed-rate debt issuances by both BDCs and other funds that focus on credit instruments, we believe that the "hedging exception" should also be expanded to include derivatives related to a fund's borrowings, including to convert a fund's fixed-rate borrowings to floating rate borrowings (or vice versa). In particular, we believe the "hedging exception" should be expanded to include derivatives that hedge the currency or interest rate risks associated with senior securities issued by the fund. Like derivatives that hedge risks related to a fund's investments, derivatives related to its borrowings are also easily distinguishable as hedging derivatives (as opposed to a total return swap or other form of synthetic leverage) and are used for similar risk management purposes.

c. Combine Limited Derivatives Users Exceptions So That Hedging Derivatives Are Excluded From 10% Exposure Test

Rather than proposing two alternative ways to qualify as a limited derivatives user, we believe the "hedging exception" and "exposure exception" should be combined into a single exception so that a limited derivatives user is defined as a fund with derivatives exposure that does not exceed 10 percent of the fund's net assets (excluding any derivatives exposure related to derivatives that hedge the currency or interest rate risks associated with (i) specific equity or fixed-income investments held by the fund, or (ii) senior securities issued by the fund, provided that such derivatives are entered into and maintained by the fund for hedging purposes and that the notional amounts of such derivatives do not exceed the value of the hedged instruments denominated in the foreign currency (or the par value thereof, in the case of fixed-income investments) by more than a negligible amount). We believe that keeping these prongs separate ignores the fundamental differences between hedging derivatives and derivatives used for speculative purposes.

Because the exception for limited derivatives users has two alternative, exclusive bases, the exception would disproportionately disadvantage funds, like ours, that have high notional amounts of derivatives used exclusively for hedging purposes. If a fund relying on the "hedging exception" were to use *any* derivative that would not qualify under the "hedging exception," regardless of notional amount, the fund would no longer be permitted to rely on the "hedging exception," and almost certainly would exceed the threshold under the "exposure exception" and therefore be immediately subject to the full extent of Rule 18f-4, notwithstanding the fact that the vast majority of the fund's derivatives do not warrant the more prescriptive and costly compliance obligations.

If the proposed rule is not revised, funds like ours would become subject to increased cost and compliance obligations that are disproportionate to the risks that our interest rate derivatives impose on us or our investors and we believe would outweigh the intended benefits of Rule 18f-4. Having to bear significant additional compliance costs would likely discourage our use of interest rate hedging derivatives transactions, which would impose additional or new risks to us and our investors in some cases, even if we bore those costs, and could limit our ability to fully execute our risk management strategy.

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We appreciate the opportunity to comment on Rule 18f-4. We believe our proposed revisions to the definition of limited derivatives users described in this letter are consistent with the Commission's objective of providing a principles-based approach to measuring derivatives exposure in an efficient and effective way and will more fully capture funds that use only the types of derivatives that the staff agrees do not implicate the policy concerns underlying the proposed rule. We would be pleased to respond to any inquiries you may have regarding our letter or our views on Rule 18f-4 more generally. Please feel free to direct any inquiries to Mr. Joshua Easterly at (212) 601-4736.

Very truly yours,

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Joshua Easterly
Chairman and Chief Executive Officer
TPG Specialty Lending, Inc.

Exhibit A

Rule 18f-4(c)(3), As Proposed

(3) *Limited derivatives users*. A fund is not required to adopt a program as prescribed in paragraph (c)(1) of this section, or comply with the limit on fund leverage risk in paragraph (c)(2) of this section, if the fund adopts and implements policies and procedures reasonably designed to manage the fund's derivatives risks and:

(i) The fund's derivatives exposure does not exceed 10 percent of the fund's net assets; or

(ii) The fund limits its use of derivatives transactions to currency derivatives that hedge the currency risks associated with specific foreign currency- denominated equity or fixed- income investments held by the fund, provided that the currency derivatives are entered into and maintained by the fund for hedging purposes and that the notional amounts of such derivatives do not exceed the value of the hedged instruments denominated in the foreign currency (or the par value thereof, in the case of fixed-income investments) by more than a negligible amount.

Rule 18f-4(c)(3), As Revised

(3) *Limited derivatives users*. A fund is not required to adopt a program as prescribed in paragraph (c)(1) of this section, or comply with the limit on fund leverage risk in paragraph (c)(2) of this section, if the fund adopts and implements policies and procedures reasonably designed to manage the fund's derivatives risks and the fund's derivatives exposure does not exceed 10 percent of the fund's net assets (excluding, for this purpose, derivatives exposure related to derivatives that hedge the currency or interest rate risks associated with (A) specific equity or fixed- income investments held by the fund, or (B) senior securities issued by the fund, provided that such derivatives are entered into and maintained by the fund for hedging purposes and that the notional amounts of such derivatives do not exceed the value of the hedged instruments denominated in the foreign currency (or the par value thereof, in the case of fixed-income investments) by more than a negligible amount).

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(3) *Limited derivatives users*. A fund is not required to adopt a program as prescribed in paragraph (c)(1) of this section, or comply with the limit on fund leverage risk in paragraph (c)(2) of this section, if the fund adopts and implements policies and procedures reasonably designed to manage the fund's derivatives risks and~~:~~ ~~(i) The~~ the fund's derivatives exposure does not exceed 10 percent of the fund's net assets~~; or (ii) The fund limits its use of~~ (excluding, for this purpose, derivatives ~~transactions to currency~~ exposure related to derivatives that hedge the currency or interest rate risks associated with (A) specific ~~foreign currency- denominated~~ equity or fixed- income investments held by the fund, or (B) senior securities issued by the fund, provided that ~~the currency~~such derivatives are entered into and maintained by the fund for hedging purposes and that the notional amounts of such derivatives do not exceed the value of the hedged instruments denominated in the foreign currency (or the par value thereof, in the case of fixed-income investments) by more than a negligible amount).