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Proposal: 1432 (RIN 7100 AD 82) Reg. V V - Proprietary Trading and Certain Interests In, and Relationships

Subject: Volcker Rule -- Prohibitions and Restrictions on Proprietary Trading and Certain Interests In, and R

Comments:

Date: Nov 06, 2011

Proposal: Prohibitions and Restrictions on Proprietary Trading and Certain Interests In, and Relationships with, Hedge Funds and Private Equity Funds
Document ID: R-1432
Document Version: 1
Release Date: 10/11/2011
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Comments:

The intention of the proposed Volcker Rule is to reduce risk of lost investor capital and to reduce systemic risk in the financial system. Further transformation is needed to reach the intended results. In its current form, the proposed rule lacks clarity between prohibited proprietary trading and the allowed market making activities. As covered banking entities exit prop trading, they may also decrease market making out of lack of clear definition. The result will be less liquidity in the markets, causing less efficiency and increasing costs for investors. Further effects of the rule will be to decrease revenue and to increase costs of compliance for banks at a time when the entities are recovering from the recent financial crisis and when economic growth has been slow. The amount will be $2 billion by some analyst estimates. Investment by banking entities covered by the proposed Volcker Rule in hedge funds and private equity funds is limited to 3%. Risk is transferring from regulated banking entities to far less regulated asset managers and insurance companies as prop traders exit investment banks to open new hedge funds, and banking entities are exiting their prohibited ownership or relationships with the funds. Pension funds that are underfunded are increasingly searching for absolute returns generated by hedge funds and private equity funds. The price of reducing systemic risk in the banking sector will be the transfer of pension fund investments to relatively unregulated financial asset management entities that will not have as much competition, and that will not be covered by the Volcker Rule. In divergence from the proposed Volcker Rule, rather than severely limit regulated banking entity ownership or relationships with hedge funds and private equity funds, systemic risk can be decreased by lowering the amount of leverage allowed to generate the absolute return. The future and current retirees depending on pension funds will benefit from the increased competition between banking entities within an investment environment that is regulated.