From: Alida Skold

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 12, 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
Name: Alida Skold
Affiliation:

Comments:
Rather than remove the capability of banks to continue competing in their areas of expertise, the financial system could be strengthened rather than pieced apart by placing stricter limits on the amount of risk taken and the amount of leverage used. The lack of clarity between prop trading and market making could be resolved through the use of tier one capital. Ultimately, the investor is benefitted through a more competitive investment environment that will maintain market liquidity. Jobs will leave the U.S. if the current proposed rule is enforced. The increase in required bureaucracy and the high costs associated with compliance with the Volcker Rule may cause foreign banks to end conducting business within the U.S. and to avoid working with U.S. customers. Either the revenues generated from the transactions will not cover the costs and the associated bureaucracy, or the U.S. customer will pay substantially higher costs for the financial service. If enforced, the proposed rule will place our banks as well as our U.S. companies at a disadvantage while competing in the global markets. 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 of the rule is needed to reach the intended results. If the Volcker Rule is enforced, further effects of the rule will be to decrease revenue and to markedly 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. In its current form, the proposed rule lacks clarity between prohibited proprietary trading and allowed market making activities. As covered banking entities end 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. Rather than prohibit prop trading, banks should be regulated to limit prop trading to tier one capital. Two objectives would be met with implementation of this type of regulation. Customer deposits would be protected from prop trading activities, and banks would not be concerned about how the regulatory agencies would interpret their market making activities. Market liquidity would not be negatively impacted by regulation. 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 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 returns from private equity funds. The unintended result of reducing systemic risk in banking entities will be the transfer of risk to relatively unregulated financial asset management entities and the vulnerable current and future retirees. 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 reduced 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.