

From: Mike P. McKeever
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:

Board of Governors of the Federal Reserve System:

Thank you for the opportunity to comment on the proposed Volcker rule.

The rule proposal is inadequate in its current formulation; it needs to be a stronger reincarnation of Glass-Steagall in order to prevent further bank failures and asset bubbles using FED funds.

The future of the economy is at stake.

Repealing Glass-Steagall resulted in pre-depression levels of bank failures and contributed substantially to the recent crisis.

Here's a link to my paper on bank regulation from 2009:
www.mckeever.com/bank_regulation_usa.doc

Here's how I would run the system:

COMMERCIAL BANKS

Commercial banks can lend money for businesses, houses, commercial property and cars. They may not be the beneficial owner of those assets, I think that is the correct term. They cannot sell stocks, insurance or any other products.

They may own real estate that they occupy only - no investment property.

Commercial banks can receive money from the public for demand deposits, CD's, time deposits and any other instrument backed by the FDIC. They may not receive money from the sale of any asset unless they sell it as result of foreclosure.

Commercial banks will be monitored closely by the FED for good financial structure, management, loan portfolio soundness, etc.

Failing commercial banks, since they possess part of the country's money supply should be wound down slowly and absorbed where possible, after making depositors whole.

INVESTMENT BANKS

Investment banks can buy shares of stock in any company or any asset they choose. They may not borrow funds from the FED.

Any security or product sold by an investment bank must be approved by the SEC - there are NO black boxes. All is disclosed.

Investment banks can go bankrupt regardless of size.

I see three problems in the first few pages of the rule.

PROBLEM ONE: CLARIFY STATUS OF 'NONBANK FINANCIAL COMPANIES'

While the proposal 'generally prohibits any banking entity from engaging in proprietary trading or from acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with a hedge fund or private equity fund ("covered fund"), the language that may extend this coverage to 'nonbank financial companies' is unclear.

It should be made clear that all the provisions of the proposed rule apply to all nonbank financial companies as well as any banking entity.

It should also be made clear that any institution which accepts deposits from the public or other institutions and/or lends money to any person or entity is considered a 'banking entity' or 'nonbank financial company' and is subject to the rules.

PROBLEM TWO: Section 13 of the BHC Act.

While 'Section 13 of the BHC Act generally prohibits banking entities from engaging in proprietary trading or from acquiring or retaining any ownership interest in, or sponsoring, a covered fund,' the rule does not specify 'nonbank financial companies'.

This should be amended so that the rule applies to all 'banking entities' and 'nonbank financial companies'.

PROBLEM THREE: EXEMPTIONS

Section 13(d)(1) of the BHC Act includes exemptions from these prohibitions for certain permitted activities, including:

'Trading in certain government obligations;

Underwriting and market making-related activities;

Risk-mitigating hedging activity;

Trading on behalf of customers;

Investments in Small Business Investment Companies ("SBICs") and public interest investments;

Trading for the general account of insurance companies;

Organizing and offering a covered fund (including limited investments in such funds);

Foreign trading by non-U.S. banking entities; and

Foreign covered fund activities by non-U.S. banking entities.'

All these exemptions should be removed so that the rules apply to all 'banking entities' and 'nonbank financial companies'.

Allowing these exemptions will allow some 'banking entities' and 'nonbank financial companies' to circumvent its provisions and render the rule impotent. Such rendering of the rule will place the entire financial system at risk.

A reasonably careful reading of the Draft proposal provides clear evidence of numerous exceptions, qualifiers, definitions and other obfuscatory statements which may well compromise the Rule's efficacy or, alternatively, provide ample work for litigation attorneys and financial industry lobbyists.

We do not need that.

We need financial industry stability.

The Glass-Steagall act provided that stability for fifty years.

The Volcker rule will not provide stability.

I recommend that we drop the Volcker rule and reinstate the Glass-Steagall Act.

Mike P. McKeever
Life is Short. Tell the Truth