



February 13, 2012

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551  
Re: Docket No. 2011-1432 and RIN 7100-AD 82

Robert E. Feldman, Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20429  
Re: RIN 3064-AD85

Department of the Treasury  
Office of Comptroller of the Currency  
250 E Street, S.W., Mail Stop 2-3  
Washington, D.C. 20219  
Re: Docket No. OCC-2011-0014

Elizabeth M. Murphy, Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090  
Re: File No. S7-41-11

**Regarding: Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds**

Dear Sir or Madam:

The Community Bankers Association of Illinois (CBAI) appreciates this opportunity to provide observations and recommendations on a proposed rule (Rule) that would implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act which contains certain prohibitions and restrictions on the ability of a banking entity and nonbank finance company supervised  
“Volker Rule” Comment Letter

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by the Board to engage in proprietary trading and have certain interests in, or relationships with, a hedge fund or private equity fund.

The CBAI is proud to exclusively represent the interests of 400 Illinois community banks. Our membership does not include Wall Street banks or nonbank financial firms - we represent Main Street community banks. These Main Street banks were not responsible for the mortgage meltdown or the ensuing financial crisis. Yet, they along with millions of American taxpayers and homeowners are experiencing the economic hardships and devastation that have accompanied the Great Recession, the effects of which we are still feeling today. Our singular focus is to represent and protect the interests of community banks and the communities they serve; and it is with this focus in mind that we submit the following observations and recommendations.

As the regulators have already discovered, implementing this Rule is more complicated than it appears particularly with respect to the many exceptions and exemptions, and a legitimate desire not to restrict liquidity of the financial markets which could potentially impact economic growth. The focus of this Rule should be to accomplish Congressional intent without creating any unintended negative consequences for the American economy and community banks.

Portions of the Rule that relate to non-bank financial firms and insured depository institutions and its affiliate ownership or sponsoring hedge funds or private equity funds are, with minimal exceptions, not applicable to community banks. CBAI recommends finalizing the rules applicable to these firms and institutions in a manner that fully protects the government and American taxpayers from the abuses and excess of the past by careful rulemaking and limiting exceptions and exemptions.

The Rule, in part, prohibits insured depository institutions from proprietary trading. Regulators must realize that community banks engage in trading activities and interest rate swaps for themselves and their customers for legitimate business reasons including interest rate risk management. The difference between various legitimate reasons for trading and hedging and prohibited activities can be indistinguishable from one another based on the existence of an individual transaction. The distinguishing feature is obviously the intent of the transaction and community banks have consistently proven their intentions are not reckless speculation or customer abuse.

By virtue of their size and business model community banks do not have the ability (or the intent) to engage in activities that put the nation's financial system or economy at risk. Safety and soundness risks posed by trading and hedging activities of community banks are completely within the purview of banks' prudential regulators. Agencies should use their authority to assign the prudential regulators this task, as part of routine examination procedures, and require compliance in a simple and straightforward manner to minimize any additional regulatory burden.

CBAI is concerned about language in the Rule that forces banks that do not engage in proprietary trading, or engage in only a limited amount of risk mitigation hedging, to revise their compliance policies to make sure they do not engage in prohibited trading and comply with the hedging exemption. This

is an unnecessary and unwarranted additional regulatory burden. This additional burden is significant and includes drafting new policies and procedures, initial and ongoing training, and internal and external auditing for compliance. CBAI recommends that community banks need only make an affirmative statement regarding their intent not to engage in prohibited trading or compliance with the hedging exemption to be in complete compliance with the Rule.

Thank you for considering our comments. If you have questions or need additional information about this letter, please do not hesitate to contact me at 847-909-8341 or by email at [davids@cbai.com](mailto:davids@cbai.com).

Sincerely,

/s/

David G. Schroeder  
Vice President Federal Governmental Relations

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