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CONFERENCE OF STATE BANK SUPERVISORS

February 8, 2012

Office of the Comptroller of the Currency  
250 E Street, SW.  
Mail Stop 2-3  
Washington, DC 20219  
Docket ID OCC-2011-14  
RIN 1557-AD44

Board of Governors of the Federal Reserve  
System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551  
Docket No. R-1432  
RIN 7100 AD 82

Robert E. Feldman  
Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429  
RIN 3064-AD85

Elizabeth M. Murphy  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549  
File No. S7-41-11]  
RIN 3235-AL07

Dear Sir or Madame,

The Conference of State Bank Supervisors (CSBS) is pleased to comment on the above listed agencies' (collectively, "the Agencies'") Notice of Proposed Rulemaking ("NPR") regarding *Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds* (or, "Volcker Rule"). The NPR represents an effort to implement one of the most monumental aspects of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). We appreciate the Agencies' work to reign in irresponsible trading practices and unnecessary relationships among financial institutions that contributed substantially to the systemic risks which have threatened our financial system.

Generally, CSBS supports the intent of the Volcker Rule to ban large-scale speculative trading on a bank's own capital for purposes of short-term profits. We also support the notion of limiting relationships among large banks and private equity or hedge funds. Further, the exceptions outlined in the NPR related to hedging, underwriting, market-making, government obligations, etc., are well-founded.

Our concern is the NPR may lead to unforeseen and unintended compliance burden for smaller institutions. As currently drafted, the NPR requires all banking organizations to have some kind of program for monitoring compliance with the rule. Even if an institution engages in no covered trading or investment fund activities, the institution must include in its compliance policies and procedures measures designed to prevent it from becoming engaged in activities prohibited or restricted by the proposed rule. The Agencies have built in a clarification intended to help alleviate unintended burden for small institutions. The NPR reads, "§ \_\_.20(d)

of the proposed rule clarifies that, if a banking entity does not engage in covered trading activities and/or covered fund activities or investments, it will have satisfied the requirements of this section if its existing compliance policies and procedures include measures that are designed to prevent the banking entity from becoming engaged in such activities or making such investments and which require the banking entity to develop and provide for the compliance program required under paragraph (a) of this section prior to engaging in such activities or making such investments.” While we appreciate the Agencies’ cognizance of the need to prevent undue burden for institutions which engage in no covered trading or investment fund activity at all, it will be difficult for institutions to prove this negative. We therefore caution the Agencies against compliance confusion that may arise from the arrangement described in the NPR.

For institutions engaging in any covered trading or investment fund activity, their Volcker Rule compliance systems must include (a) policies and procedures, (b) a system of internal controls, (c) a management framework that delineates responsibility and accountability for compliance, (d) independent testing of the effectiveness of the compliance program, (e) suitable training for trading personnel and managers, and (f) maintenance of records to demonstrate compliance to be provided to the appropriate regulatory bodies and to be retained for five years. Thus, it seems even small institutions which engage in small scale, non-complex permissible trading or investment fund activity will be subject to strong Volcker Rule compliance requirements. We understand the need for some consistency in application of the rules. However, we do not believe the original intent of the law was to burden small institutions who do not engage in large scale trading or investment fund activity with new compliance requirements. We therefore urge the Agencies to work to ensure the compliance requirements of the proposal do not present unreasonable and new burdens for the set of institutions on which the mandate was not originally focused.

Considering the matters outlined above, it is important the Agencies craft a rule structure against which bank examiners can reasonably examine. Ambiguity surrounding compliance requirements may create an environment prone to inconsistent enforcement of the rule. We must be cautious about such inconsistency given the complexity of the issue at hand and the tough compliance situation many small institutions currently face.

Best regards,

A handwritten signature in black ink, appearing to read "John W. Ryan". The signature is fluid and cursive, with a large initial "J" and "R".

John Ryan  
President and CEO