February 10, 2012

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

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW.,
Washington, DC 20551
Docket No. R-1432; RIN 7100-AD82

Mr. Robert E. Feldman
Executive Secretary
Attn: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW.,
Washington, DC 20429
RIN No. 3064-AD85

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE.,
Washington, DC 20549-1090
Attn: Elizabeth M. Murphy, Secretary
File No.S7-41-11; Release No. 34-65545

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

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

Dear Sirs and Madams:

Nuveen Asset Management ("NAM") appreciates the opportunity to comment on the proposed rule ("Proposed Rule") issued by the above-listed agencies ("Agencies") to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly known as the "Volcker Rule." NAM provides portfolio management services to open and closed-end funds and to separately managed accounts that hold municipal bonds with an aggregate value in excess of $75 billion.

Since other commenters have discussed at length the effect that various provisions of the Volcker Rule, as proposed, could have on the municipal bond market, our remarks will be brief. We have two concerns with respect to the proposed rule:

(1) The rule would allow banks to engage in proprietary trading of "an obligation issued by any state or any political subdivision thereof," but would not permit proprietary trading in "obligations of an agency of any State or political subdivision thereof."
(2) The rule would not allow banks to sponsor or invest in securities issued by tender option bond trusts that contain municipal securities.

Debt of agencies of state and local governments should be excluded from the prohibition.

Regarding the prohibition against proprietary trading in obligations of agencies of state and local governments, we see at least four arguments why the definition of municipal securities that are excluded from the prohibition should be expanded to include all municipal securities as defined in Section 3(a)(29) of the Securities Exchange Act of 1934, which includes bonds sold by any "agency or instrumentality of a State or any political subdivision thereof."

(1) The legislation does not specifically require that bonds issued by state and local agencies be subjected to the prohibition against proprietary trading; it simply does not specifically exclude agency debt from the prohibition. The statute does not expressly distinguish between direct and agency debt of state and local governments, and there is no logical reason for making such a distinction. It may be that the drafters of the legislation did not specifically exclude agency debt from the prohibition because they considered that such agencies (and authorities) are encompassed in the meaning of the phrase "political subdivisions" of the states. At any rate, the legislation did not provide a rationale for differentiating between debt of agencies and debt issued directly by state and local governments, and such a distinction is contrary to the definition of municipal securities in the 1934 Act mentioned above and the long-standing treatment of such debt in the municipal securities marketplace.

(2) Subjecting agency debt to the prohibition would prevent banks from engaging in proprietary trading with respect to a large portion of the municipal bond market. According to The Bond Buyer, a publication that specializes in reporting developments affecting issuers and buyers of municipal bonds, in calendar year 2011, State Governments, Counties & Parishes, Cities and Towns, and Districts issued municipal debt with a par value of $139.6 billion, while State Agencies and Local Authorities sold $144.4 billion of new debt. The problem of subjecting agency debt to the prohibition

would be particular acute at the state level, where State Governments sold $35.6 billion of new bonds, but State Agencies issued $89.1 billion.

(3) A distinction between agency debt and direct obligations of state and local governments would allow some issuers to be exempt from the prohibition, while other issuers, which perform the same function as the exempt issuers, would be subject to the prohibition. For example, banks would be permitted to trade for their own account in bonds issued by the City of Chicago for O'Hare Airport, but would be prohibited from proprietary trading in bonds issued by the Metropolitan Washington Airports Authority, simply because the latter is an authority created with the consent of Congress, and governed by a board whose members are appointed by the President of the United States, the Mayor of the District of Columbia, and governors of the States of Maryland and Virginia.

Nor can one argue that agency debt, as a class of securities, is less creditworthy than directly issued debt. In our example, bonds issued for O'Hare Airport are rated A1 by Moody's Investors Service and A- by Standard & Poor's, while bonds issued for the Washington Airports are rated Aa3/AA-.

(4) The inability of banks to engage in proprietary trading of agency debt of state and local governments would reduce the liquidity of those bonds, making them less attractive to investors, and therefore requiring issuers of such debt to pay higher interest rates when issuing new debt. The municipal market's dependence on individual investors increases the need for institutional market participants, such as banks, to provide liquidity, especially when demand from the retail public is waning. According to the Federal Reserve Board's Flow of Funds report, as of September 30, 2011, "Households" accounted for 51% of the value of all municipal bonds outstanding; while long-term open and closed-end mutual funds and exchange-traded funds, which are almost exclusively used by retail investors, accounted for 16.8%; and money market funds, which hold both retail and institutional assets, accounted for 7.8%.

Banks should be permitted to sponsor and own securities of tender option bond trusts that hold municipal bonds.

Tender option bonds (TOBs) are one of two classes of securities issued by TOB trusts that hold municipal bonds. As the name suggests, TOBs can be tendered at par at the option of the holder at periodic intervals. The tender option is supported by a conditional liquidity facility provided by a bank. The general practice is that TOBs that are tendered are then sold to other buyers by a remarketing agent, which often stands ready to hold temporarily for its own account securities that cannot be promptly redistributed. The option to tender is intended to enable the TOBs to trade at par, and as such they are frequently held by tax-

exempt money market funds and are classified as securities with conditional demand features under Rule 2a-7 of the Investment Company Act of 1940.

The second class of securities sold by TOB trusts are referred to as inverse floating rate securities, or residuals, which receive all income generated by the bonds in the trust that is not needed to pay interest on the TOBs and expenses of the trust. Since the TOBs can be tendered at par on predetermined remarketing dates, changes in the market value of the underlying bonds in the trust are fully reflected in changes in the value of the residuals.

There are three circumstances under which TOBs may be retired in advance of maturity. First, if all or a portion of the TOB securities cannot be remarketed successfully within a specified length of time, the remarketing agent has the right to put the TOB securities to the liquidity provider. At that point the trustee would draw upon the liquidity facility to call for redemption any remaining TOBs, and would sell the underlying bonds in the trust, whose proceeds would reimburse the liquidity provider for amounts paid to holders of TOBs; and any remaining proceeds would be paid to the holders of the inverse floating rate securities. In the unlikely event that the proceeds were inadequate to cover the full cost of retiring the TOBs, the liquidity provider would absorb the loss. Such a termination of a TOB trust would be likely to occur if the credit quality of the underlying bonds deteriorated to the point that the TOBs were no longer eligible securities under 2a-7.

Second, if the market value of the collateral were to decline to the point that the coverage ratio for TOBs drops below a predefined level or the ratings of the underlying bonds were to fall below a specified threshold (typically double-A), a mandatory termination would occur, under which the liquidity provider would provide funds for the redemption of all outstanding TOBs, and the trustee would liquidate the trust. As was the case if the TOBs could not be remarketed, proceeds from the liquidation of the trust would be used to reimburse the liquidity provider for amounts paid to holders of TOBs, and any remaining proceeds would be paid to the holders of the inverse floating rate securities. These mandatory termination events are designed to trigger liquidation when collateral values are still much greater than the par value of the TOBs to prevent any losses by the liquidity provider.

Finally, in the unlikely event that the underlying bonds were to suffer a sudden, catastrophic credit event without first causing a failed remarketing or a mandatory termination event, the liquidity provider would be released from its obligations under the liquidity agreement, and both the holders of TOBs and the holders of the inverse floating rate securities would participate in any losses, and would either be paid from the sale of the collateral or would receive the collateral. Such a "tender option termination event" can occur if the issuer of the underlying bonds defaults or files for bankruptcy, or if the bonds are downgraded to below investment grade or are declared to be taxable.

As investors that frequently hold residuals, our funds have a keen interest in preserving the ability of banks to sponsor TOB trusts, to purchase TOBs in their role as remarketing agents and to provide liquidity facilities for TOBs. Since it is the residual, not the TOBs, whose market value changes in response to changes in the value of the underlying bonds, and since the liquidity facility agreements provide for mandatory termination and liquidation of trust assets so that liquidity providers are adequately reimbursed from the proceeds of bonds sold when TOBs cannot be remarketed, or the trust assets fall in value or experience adverse credit events, TOBs pose little risk to banks that acquire them pursuant to their duty as remarketing agents or providers of liquidity facilities.

As currently drafted, the Proposed Rule would apparently treat TOBs as if they were "hedge funds" or "private equity funds" since, like those categories of "covered funds," TOBs would be defined as investment companies under the Investment Company Act of 1940 but for the exclusions found in section 3(c)(1) or 3(c)(7) of that Act.

While our primary concern is that banks be permitted to provide liquidity and remarketing services for TOBs, for the following reasons we believe that banks should also be permitted to own the residuals of TOB trusts.

(1) In the market for tax-exempt securities, TOB trusts are the functional equivalent of repurchase agreements in the taxable world. In both cases, the bank uses the securities as collateral for purposes of financing its assets. Since repurchase agreements are specifically permitted under Section__.3(b)(2)(iii)(A) of the proposed rule, it would be inconsistent for banks not to be permitted to hold residuals of TOB trusts.
(2) For purposes of determining the adequacy of a bank's capital, it is our understanding that banks that hold residuals treat the underlying bonds as assets of the banks, and the TOBs as liabilities, which means that the risks are fully reflected on their balance sheets.
(3) Since TOB trusts are a key mechanism that banks use to finance their inventory of municipal bonds, their ability and willingness to hold inventory in the course of making markets in municipal securities would be constrained if this financing vehicle were no longer available. The result would be that tax-exempt bond funds would have to depend more on other institutional investors to buy the bonds they want or need to sell. The absence of banks as market-makers for tax-exempt bonds would be particularly problematical for open-end funds that need to be able to raise cash quickly to meet redemptions by shareholders.
(4) TOBs play a critical role in providing securities, from a diversified pool of issuers, that are suitable for investment by money market funds. They are thus an extension of banks' role in transforming long-term liabilities of state and local government into short-term assets to meet the needs of customers who require highly liquid investments. According

to industry sources, TOBs constitute about 20% to 25% of the assets of tax-exempt money market funds, which collectively had assets under management of $292 billion as of September 30, 2011, according to the Federal Reserve Board's Flow of Funds report.

In conclusion, we urge the Agencies to allow banks to trade for their own accounts in the debt of agencies and authorities of state and local governments as well as in the debt sold directly by states and their political subdivisions, and to allow banks to sponsor tender option bond trusts and to own tender option bonds and residuals issued by such trusts. If you have any questions or wish to discuss the above comments, please contact the undersigned at 312-917-7865.

Thank you for the opportunity to comment on the Proposed Rule pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Respectfully Submitted,

Cadmus Hicks
Managing Director
Nuveen Asset Management
333 West Wacker Drive
Chicago, IL 60606