LORD ABBETT

February 8, 2012

By Electronic Submission

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington DC 20429

Board of Governors of the Federal
Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Department of the Treasury
Office of the Comptroller of the
Currency
250 E Street, SW
Washington, DC 20219

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

Dear Sirs:

Lord, Abbett & Co. LLC ("Lord Abbett") is an independent, privately owned money management firm with more than $117 billion in assets under management. One of the oldest investment management firms in the United States, Lord Abbett was founded in 1929, and manages one of the first mutual funds (started in 1932). Lord Abbett currently provides investment management and advisory services to both institutional and individual investors through a broad array of mutual funds, institutional accounts and managed account programs across a wide range of investment strategies. The Lord Abbett Family of Mutual Funds currently consists of 56 portfolios with approximately $77 billion in assets. Our institutional clients include corporations, public funds, foundations and endowments, unions, insurance companies, religious and healthcare organizations, and family trusts.

Our singular focus is on the management of money. We do not invest for our own account or execute trades as a broker-dealer on behalf of our client accounts. We are driven by a commitment to the stewardship of our clients' assets and take as paramount our responsibility as a fiduciary to our clients.

As a firm that prides itself on having helped to shape the Investment Company Act of 1940, Lord Abbett understands the importance of effective regulation of the financial sector. We recognize that excessive banking industry practices, such as speculative proprietary trading, jeopardize the safety of our financial system and must be regulated. As such, Lord Abbett supports the efforts of regulators to promulgate appropriate rules to implement Section 619 (commonly known as the "Volcker Rule") of the Dodd-Frank Wall Street Reform and Consumer Protection Act. At the same time, it is important that the Volcker Rule not be crafted and applied in a manner that results in the disruption of the U.S. financial markets, or negatively impacts the competitiveness of the U.S. financial industry or the broader U.S. economy.

While the Volcker Rule does not apply directly to Lord Abbett, we are concerned that the Volcker Rule as proposed may have a significant negative effect on our ability to manage our clients' assets successfully and to help our clients meet their investment goals. Lord Abbett's investment and trading teams interact on a daily basis with banks and bank affiliates to which the restrictions in the Volcker Rule will apply. Currently, these banks and their affiliates, in their role as dealers, act as counterparties in equity and fixed income securities trades for our clients' accounts. Many of the important dealers are banking entities, which are vital to effective financial markets.

The regulators already have received numerous comment letters with respect to the Volcker Rule proposal. We join those commentators who have expressed concerns about the adverse impact the Volcker Rule could have on liquidity in the financial markets. As a member firm of the Investment Company Institute (the "ICI"), we also are supportive of the ICI's efforts to represent the views of the investment company industry with respect to the proposal. Nonetheless, we believe it is important for Lord Abbett to write separately to voice our concerns generally about the unintended and ill-advised consequences that the Volcker Rule proposal could have on important elements of the investment management industry and financial markets, particularly with respect to market liquidity.

The Volcker Rule, as part of the Dodd-Frank legislation, intends to make the U.S. financial system safer by restricting investments and prohibiting proprietary trading at U.S. banks. The consequences of the Volcker Rule, however, extend beyond specific bank behaviors, and lead to concerns about reduced liquidity, wider bid-offer spreads, higher debt costs, and structural disadvantages for both U.S. banks and U.S. asset managers. In particular, the Volcker Rule's prohibition of proprietary trading causes broad concerns.

According to the legislation, "Proprietary trading means engaging as principal for the trading account of the (bank)...." This broad definition could discourage even traditional market-making activity for fear that regulators might interpret resulting positions as proprietary. The Volcker Rule proposal, in the form proposed by the agencies in October 2011, acknowledges the permissible activities set forth in the Dodd-Frank Act by including exemptions for each of these activities, including market making, underwriting and hedging. We join with those who have expressed concerns, however, that these exemptions are too narrowly crafted, include too many conditions to be workable in practice and rest on the presumption that critical market practices that occur today should be prohibited unless the onerous criteria are met. We believe these factors would combine to have a chilling effect on capital formation and market liquidity and, in turn, will negatively impact individuals seeking to invest their savings (including the shareholders of the mutual funds we manage) and businesses accessing the capital markets to help grow their operations. Additional concerns that are likely to reduce bank activity relate to compliance rules that could require that banks explain how each trade benefited a client and is therefore not proprietary.

Even if these concerns are addressed, however, any attempt to eliminate proprietary trading positions would remove important participants from corporate bond and convertible securities markets, impeding liquidity for a much broader universe of investors. The intent behind the proprietary trading prohibition is to eliminate risky bets that could jeopardize the financial stability of a bank. While this is an appropriate objective, prohibiting such transactions leads to other consequences. Importantly, banks that are not allowed to engage in proprietary trading may be either unable or unwilling to carry inventory, not only in their own trading account, but also as a part of their traditional market-making and flow-trading business.

Inventory promotes transactions, which enhances and broadens liquidity. Without inventory, securities such as corporate bonds will become harder to buy and sell. Bank trading desks will be limited to transactions where they can match a buyer and a seller. This will naturally produce fewer transactions, compromising liquidity. Inability to find a ready counterparty will likely force much wider bid-offer spreads as banks adjust their prices to reflect the forced use of their balance sheet and the reporting requirements of new compliance rules. Wider bid-offer spreads in turn reduce incentives for asset managers to trade, perpetuating a downward spiral in liquidity.

As many asset managers experienced during the recent credit crisis, dealers' willingness to manage their trading books contributes meaningfully to the daily bond liquidity that is often taken for granted. The unwillingness of many bank dealers to take securities positions during the recent credit crisis meant that bids were often simply unavailable, that prices gapped lower, and that many asset management positions could not trade. Already, liquidity has been compromised by reduced bank capital to support trading and market-making businesses, combined with the effects of increased global political risks and economic uncertainty. Further incentives, via the Volcker Rule, for banks to turn away from securities trading and market-making may not assure a return to the dramatic market freeze of 2008 and 2009, but a further reduction in liquidity and even wider bid-offer spreads seem almost certain.

The reaction by asset managers to this new environment of reduced liquidity is already being reflected in their increased preference for highly liquid credits. If this preference for highly liquid credits is accentuated, unhealthy portfolio concentrations could result. It is important to remember that highly liquid is not synonymous with high quality, as holders of auto company debt and money center bank debt discovered in 2008. Concentrations of liquid credits that become distressed can produce unexpectedly adverse portfolio results. At the same time asset managers are exhibiting increased preference for highly liquid credits, they are starting to demand a yield premium for less liquid names that may be difficult to exit. The expansion of such yield premiums for less liquid credits will impact the debt costs of those who can afford it least, mid-sized companies that are borrowing to expand. Further exacerbation of liquidity concerns will force asset managers to maintain a larger cash cushion in portfolios that may be subject to redemptions. As a result, investors will likely suffer poorer returns as portfolios are forced to maintain a larger allocation to lower yielding cash-equivalent securities.

These unintended consequences of the Volcker Rule, including reduced liquidity, wider bid-offer spreads and increased concentration in specific names, combine to produce another unwelcome outcome – increased volatility. Recently, investors collectively responded to global political and economic risk by reducing exposure to riskier securities. If dealer banks had been prohibited from building positions and were instead forced to find a buyer for every security sold, prices would have fallen much further than they did. Banks were able to absorb the avalanche of high-yield securities in their trading accounts and were at the same time able to perform a function that long-only asset managers could not – hedge the risk. Whether through use of credit default swaps, high-yield indexes, or other measures, dealer banks can mitigate their exposure and in the process dampen market volatility. If banks are skeptical of how such positions may be perceived by regulators, the indirect benefit of bank hedging will be unavailable to many asset managers, further restricting liquidity and potentially increasing volatility.

Finally, because the Volcker Rule affects only U.S. banks and U.S. trading activities of non-U.S. banks, non-U.S. banks operating outside the U.S. may be willing, and in fact very interested, to provide liquidity via trading positions and hedging transactions. U.S. banks will thus operate with a competitive disadvantage as foreign banks not only profit from additional securities transactions, but also from investment banking activities that follow the liquidity non-U.S. banks would uniquely provide. However, exemption from the Volcker Rule requires that non-U.S. bank transactions must be with a non-U.S. entity. Thus the Volcker Rule could create a competitive disadvantage not only for U.S. banks but also for U.S.-domiciled asset managers as well, as non-U.S. asset managers capture the liquidity and supply that is less available to domestic firms.

Conclusion

Lord Abbett applauds the efforts of regulators in seeking solutions that make the U.S. financial system safer and that modify behaviors that jeopardize bank stability. However, the current design of the Volcker Rule seems capable of impeding the liquidity and availability of many fixed income securities to the point where investors, issuers, dealers and asset managers are all adversely impacted. We strongly urge the regulatory agencies to take a fresh look at the proposal to arrive at a more narrowly tailored approach that will strike a better balance between mitigating systemic risk and allowing banks and their subsidiaries to provide the market making and liquidity functions that are essential to our financial markets. We advocate an approach to encourage U.S. banks to provide liquidity without concern that their activities will be misinterpreted or that compliance requirements will make such business uneconomic.

Very truly yours,

Zane E. Brown
Partner & Fixed Income Strategist
Lord, Abbett & Co. LLC