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February 6, 2012

Jennifer J. Johnson
Secretary
Bd. of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

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

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Via Internet: www.regulations.gov

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

Dear Ladies and Gentlemen:

I am pleased to submit these comments in response to your Agencies' joint notice of proposed rulemaking implementing the "Volcker Rule," set forth in Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. I appreciate the opportunity to provide input. In particular, I address Question 310 and discuss the importance of ensuring that the Volcker Rule as implemented does not stifle the high growth technology sector, which is so essential to a strong U.S. economy, by preventing banks from sponsoring and investing in venture capital and venture debt funds.

First, I offer a brief word on venture lending funds, as they are a small but critical part of the entrepreneurial financing ecosystem. Venture lenders provide direct financing to the fast-growth companies that have already raised equity from venture capital firms. The companies we finance do not typically qualify for more restrictive bank financing but are mature enough to service some level of debt. These companies favor our form of financing because it is less expensive to them than ongoing rounds of equity venture capital, and they are often not able to attract other forms of financing on reasonable terms. Like traditional equity venture capital, our industry helps spur the growth of young fast-growth companies. In no way do we contribute to "structural" risk in the financial markets – in fact I would argue that we alleviate structural risk by contributing to the growth of the entrepreneurial economy.

While my partners and I support Congress' efforts to reform the financial services sector, we think it would be very damaging to the growth and vibrancy of the economy to restrict banks from investing in or managing venture capital partnerships. Our firm, Gold Hill Capital, is a friendly spin-out of SVB Financial Group (a.k.a. Silicon Valley Bank, or SVB), and SVB is an important partner and investor in our firm.

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My firm, Gold Hill Capital provides debt and equity financing to early-stage technology, life science and cleantech companies that are looking to fuel their growth by developing new products and expanding their workforces. We have committed over $700 million in gross financing to more than 200 U.S. companies since our inception in 2003. We have had a very real positive impact on the viability and success of companies across the United States, including A123 Systems, Infinera, 3PAR, and Netezza, all of which that have completed successful public offerings.

The formation of Gold Hill nine years ago was possible in large part due to our partnership with and investment from SVB. Their ability to participate as an early investor in our fund gave us the credibility and momentum we needed to attract other investors and get the business started. In my career, we have seen a number of venture capital funds seeded at commercial banks and grow to be very successful providers of capital to the innovation economy. It is a model that is unique to the U.S. and I believe contributes heavily to our leadership position globally in entrepreneurship. Yet if you apply the Volcker Rule to venture, this sort of collaboration will never again occur, since under Volcker banking entities are legally prohibited from investing in third-party funds.

Finally, I believe that a well-managed program of venture capital investing does not represent the kind of risk profile that the financial services reform effort is attempting to mitigate. On the contrary, venture capital is part of the financing landscape critical to the formation and development of the next generation of growth companies. Only a limited number of banks participate actively in the venture capital market, and venture represents a tiny fraction of the broader Private Equity/Hedge Fund markets. Therefore, venture does not pose the same type of "systemic" risk factors that reform legislation is targeting.

In fact, based on my many years lending to and working with start-up companies and with banks like SVB, I believe that banking entities that sponsor and invest in venture funds promote both financial stability and bank safety and soundness. One of the core attributes of financial stability is a system's ability to provide credit, facilitate investment, and otherwise promote economic processes, wealth accumulation, job creation and economic growth.[1] Venture investment – whether in the form of debt or equity – achieve all of these objectives by building stronger lenders and stronger borrowers; aggregating pools of capital and investing them in promising high growth, innovative companies and technologies; investing on a long term basis and through economic troughs, counter-balancing broader economic swings; and creating companies and industries that contribute meaningfully to economic growth and job creation. In terms of safety and soundness, venture's small size, long term nature, lack of leverage, and basic structure (in which liquidation preferences and other structures are used to manage a portfolio's downside risk) minimize safety and soundness concerns. At the same time, the expertise and insights gained through investing – the ability to understand the performance of high growth companies and sectors at all stages of the capital formation, capital investment, and liquidity cycle – affirmatively helps banks be more effective and safer lenders.

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1 *See, e.g.,* G. Shinasi, Defining Financial Stability, at page 8 (2004); M. Foot, What is Financial Stability and How Do We Get It, at paragraph 16 (2003); E. Rosengren, Defining Financial Stability, and Some Policy Implications of Applying the Definition (2011); *see also* Financial Stability Oversight Council, Authority to Require Supervision of Certain Nonbank Financial Companies, 76 Fed. Reg. 17 at page 4561 (2011).

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We strongly urge you to do everything in your power to insure that the Volcker Rule, as implemented, allows institutions like SVB to continue to invest in venture capital and venture debt funds. Such policy is totally consistent with a strong Volcker Rule seeking to eliminate systemic risk in the banking industry. This risk is not present in SVB's venture capital practice.

On the question of how to define venture, we believe that the SEC's definition of venture capital (set forth in Rule 203(l)-1 of the Advisers Act) provides a workable foundation. However, this definition focuses exclusively on providers of equity investments. We believe that banking entities should also be allowed to sponsor and invest in funds that would qualify as venture capital funds under Rule 203(l)-1 but for the fact they provide loans or convertible debt (rather than equity investments) to qualified portfolio companies. These funds are at least as safe – and almost certainly safer – than equity funds, because they structure their investments with the downside protections typical for debt instruments.

Thank you very much for your attention. If you have any questions, please feel free to contact me at 781-796-4222.

Sincerely,

David Fischer
Manager, Gold Hill Capital

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