

For: Dr. Ben Bernanke  
Chairman  
Board of Governors of the Federal Reserve System

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Copenhagen, February 21, 2012

Dear Chairman,

As President of the EU Council of Ministers (ECOFIN), I would like to voice some concerns on the recent proposals for the implementation of the Dodd-Frank legislation on behalf of the Member States of the European Union. I hope that these can be helpful as you work towards finalising provisions in the summer.

We welcome US efforts to reform financial services regulation, making the sector more resilient, and enabling it to better cope with future stresses. It is important that market participants are prevented from endangering the stability of the financial system through their activities. The G20 commitments on financial regulation, and the many legislative initiatives being formalised both in the US and in the European Union, demonstrate our combined commitment to better and safer regulation. It is important that this atmosphere of collaboration continues by way of a timely implementation of G20 commitments, in order to ensure a level playing field for financial institutions and consistency of regulation while avoiding the risk of loopholes or regulatory arbitrage.

In this respect, we have some concerns regarding the proposed implementation in the US of the so-called Volcker Rule which bans commercial banks from engaging in proprietary trading, and the implications this could have for the EU and for the interaction between EU and US markets. I thought it would be helpful to lay these out, and set the scene for further dialogue between the US and EU Member States.

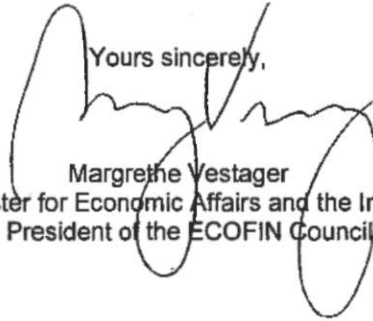
The first concern relates to the distinction between permitted and beneficial market-making activities and prohibited proprietary trading. The Dodd-Frank Act permits market-making or positions acquired for liquidity management purposes. It is vitally important that the dividing line between market-making and proprietary trading is drawn in the right place, to allow markets to continue to function effectively and properly, and to avoid that banks reduce their market-making activities. We note that US government securities have been taken completely out of the scope of the rule, while non-US government securities remain within the scope. Our understanding is that this exemption aims to avoid unintended implications for market-makers in sovereign debt markets. However, as it stands, the rule would give US Treasury bonds preferential treatment over, for example, EU sovereign debt, and thus create an un-level playing field in sovereign debt markets. This would be a major concern for EU Member States. We should aim at minimising distortions on international capital markets and see an economic rationale for an extension of the exemption to foreign government bonds with a similar risk structure to US government bonds. I would therefore urge you to reconsider the proposed regulation in this respect to ensure equal treatment.

We also have concerns regarding the potential extraterritorial consequences for non-US banks, whose non-US operations may be captured within the scope of US draft regulation. There have been suggestions that trades otherwise unconnected to the US but which are transacted through US exchanges and counterparties may be captured under the current rules. This would not only raise questions about extra-territoriality but is also clearly not in the interest of the US nor consistent with the original intent of the legislation. We understand and support the desire to ensure a level playing field within the US, and to prevent banks from circumventing the regulation by moving offshore. However, it is important to us that the permitted activities of EU firms within the EU will not be subject to the regulation, and in particular that EU firms with US operations do not suffer from competitive disadvantages when it comes to their non-US business,

simply by virtue of also operating in the US. We hope that you will act to prevent the possibility of extraterritorial applications of the Volcker Rule.

We stand ready to engage in further dialogue to resolve these issues and reassure Member States in respect of their concerns.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Margrethe Vestager', written over the typed name and title.

Margrethe Vestager  
Minister for Economic Affairs and the Interior  
President of the ECOFIN Council