



December 21, 2011

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

R-1432

Re: *Section 619 of the Wall Street Reform and Consumer Protection Act*

The National Association of Securities Professionals (NASP) is a non-profit association of professionals in the securities industry. NASP brings together the nation's minorities and women who have achieved recognition in the industry as brokers, asset managers, public finance consultants, investment bankers, bond counsel, commercial bank underwriters, investors, plan sponsors and other finance professionals.

We serve as a resource for the minority community at-large and for the minority professionals within the securities and investments industry, by providing opportunities to share information about the securities markets, including functioning as a repository for information regarding current trends, facilitating fundamental educational seminars, and creating networking opportunities.

NASP recognizes the critical importance of regulation that will help ensure the integrity of financial markets. The Wall Street Reform and Consumer Protection Act – "Dodd-Frank" – includes a number of measures that will contribute to financial stability in U.S. markets, while fostering greater accountability and transparency throughout the financial system.

However, the task of implementing Dodd-Frank presents regulators with choices that could undermine the stability and resilience of the US financial system. NASP is particularly concerned about unintended consequences in the proposed regulations implementing Section 619 of Dodd Frank – often referred to as the "Volcker Rule."

The original intent of the provision was to prohibit U.S. banks with insured deposits from engaging in proprietary trading and limit bank holding companies from participating in hedge fund and private equity businesses. The first objective has largely been achieved as most of the covered institutions have shut down or spun off their proprietary trading operations. But the expansive and granular regulatory framework put forward by the four regulators in the proposed rule implementing Section 619 runs the risk of restricting large institutions from fulfilling their beneficial market making functions. Broker-dealers – both large and small – are obligated to act as an agent for buyers and sellers by executing their orders in the market, or act as a principal by supplying liquidity directly to clients. This role is particularly vital to US interests on a routine basis and even more so in times of crisis when natural buyers may be hard to find.

NASP members have extensive experience with global capital markets. Our members have experienced up markets and down markets and are engaged in trading the full range of financial products. While we have a diversity of views about the markets and the rules that govern them, we are firmly united in believing that liquidity is critically important to the health and vitality of the US financial system. Liquid markets help to keep the cost of capital low, while also promoting efficient capital allocation. In such an environment, companies find it easier to expand and there are higher rates of job creation. When liquidity dries up, there's less access to credit and the cost of capital goes up, hindering business growth and job creation.

If implemented in an overly intrusive manner, Section 619 has the potential to curtail liquidity. Covered institutions, fearful that their actions will be second guessed by regulators, could become hesitant to fulfill their market making role. A report by the Government Accountability Office highlights the uncertainty around the Volcker Rule: "[I]mplementing [the rule] poses challenges, including how to best ensure that firms do not take prohibited proprietary positions while conducting their permitted customer-trading activities."

One particular concern is how the proposed rule covers the natural process of maintaining inventory in anticipation of client demand. As in any business, broker dealers manage inventory in anticipation of client demand. Section 619's metrics and granularity run the risk of inserting regulators into the process of building inventory. Inventory management – including managing inventory for profitable return – is not "proprietary trading" as it was thought of in the debate around the Volcker rule. The proposed rule should be redrafted to ensure that such normal course market making functions are not subject to regulatory second-guessing.

If larger firms are hesitant participants in the market, other market participants will withdraw and liquidity will migrate to other global financial centers. For smaller regional firms like many NASP members, it will be difficult to meet client needs if liquidity evaporates to non-U.S. financial centers. Cost will rise for both firms and clients, and market volatility will increase. It's a painful irony that a measure designed to reduce risk in the financial system would have the effect of exacerbating it.

The congressional intent of the Volcker Rule was to restrict proprietary trading – it was not to impose comprehensive restrictions on market making. Regulators should redraft the proposed rule, making it simpler and clarifying that basic market making functions of covered institutions is not impacted.

As you move forward with your rulemaking, I urge you to focus on reforms that will preserve the ability of financial firms to serve their clients, while also contributing to the long-term growth and vitality of the U.S. economy.

Sincerely,



Orin Graves, CFA
Executive Director

National Association of Securities Professionals