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PENNSYLVANIA

COMMITTEES:  
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JOINT ECONOMIC

# United States Senate

WASHINGTON, DC 20510

March 16, 2012

The Honorable Ben S. Bernanke  
Chairman  
Board of Governors of the Federal Reserve  
System  
20<sup>th</sup> St and Constitution Ave, NW  
Washington, DC 20551

The Honorable Timothy F. Geithner  
Secretary of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

The Honorable Gary Gensler  
Chairman  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, NW  
Washington, DC 20581

The Honorable Martin J. Gruenberg  
Acting Chairman  
Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429

The Honorable Mary L. Schapiro  
Chairman  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

The Honorable John G. Walsh  
Acting Comptroller of the Currency  
250 E St, SW  
Washington, DC 20219

Dear Sirs and Madam:

The proprietary trading ban in the Dodd-Frank Wall Street Reform and Consumer Protection Act is an important step towards preventing another financial crisis. I am pleased that your agencies are moving forward with this important rule and appreciate the efforts of you and your staffs. However, I have concerns about certain provisions in the draft rule. The Volcker Rule was precipitated by the actions of a few large financial institutions whose activities leading up to the financial crisis posed a clear systemic risk. As you implement these new regulations, it is important that you address this risk while also avoiding unnecessary constraints on the rest of the market, particularly with regard to small banks and individual investors.

Most of Pennsylvania's banks are small—only two percent of FDIC insured institutions in Pennsylvania have assets greater than \$10 billion. Small, community banks are important lenders in local economies throughout the Commonwealth. They have a vested interest in the success of area businesses and are well-placed to judge the creditworthiness of local borrowers. Small banks do not typically engage in the type of proprietary trades that prompted the Volcker Rule and do not pose the systemic risk that larger institutions do. Nevertheless, it appears that the draft rule may have an unintended, negative effect on small banks. As written, the rule would require banks who do not engage in covered trading activities to establish a compliance program "designed to prevent the banking entity from becoming engaged in such

activities.” I have heard from Pennsylvania banks that these compliance requirements could impose a significant cost and may result in some smaller banks seeking to be acquired by larger institutions that could provide the infrastructure needed to manage compliance. Such mergers would not only eliminate the local control of banks that is critical to Pennsylvania’s economy, but would also continue the trend towards larger institutions that helped create “too big to fail.” I encourage you to minimize the compliance burden on small banks in the final rule.

I am also concerned with how the draft rule’s impact on market liquidity will affect individual investors. While I understand there are difficulties in differentiating between legitimate market-making activities and prohibited proprietary trading; I am concerned that the rule as written will curtail legitimate trading, constraining market liquidity for assets that rely heavily on dealer market-making, such as bonds. If a significant reduction in liquidity were to occur, it would likely reduce the value of investments and increase transaction costs. Millions of Americans depend on their investments to help them save for expenses such as their children’s education or their retirement. Increasing costs and decreasing yields for these investors would make it more difficult for them to acquire the savings they need and could price some lower-income investors out of the market entirely. As you work to complete a final rule, I urge you to revisit the effectiveness of the current market-making exemption at providing sufficient liquidity.

The ban on proprietary trading is a critical component of Congress’ efforts to reform Wall Street following the financial crisis. Banks should not be allowed to gamble with money insured by the American taxpayer—it threatens the safety and soundness of our Nation’s financial system and risks another financial collapse. However it is critical that the final rule recognize the different levels of risk posed by different types of institutions, as well as not interfere with the legitimate investments that so many Americans rely on.

Thank you for your consideration of my views.

Sincerely,

A handwritten signature in black ink that reads "Bob Casey, Jr." in a cursive, slightly slanted script.

Robert P. Casey, Jr.  
United States Senator