

MICHAEL M. HONDA
15TH DISTRICT, CALIFORNIA
WASHINGTON OFFICE:
1713 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
PHONE: (202) 225-2631
FAX: (202) 225-2699
<http://www.honda.house.gov>
DISTRICT OFFICE:
1999 SOUTH BASCOM AVENUE
SUITE #815
CAMPBELL, CA 95008
PHONE: (408) 558-8085
FAX: (408) 558-8086
GILROY RESIDENTS: (888) 643-4715



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Congress of the United States
House of Representatives

December 20, 2011

COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEES:
COMMERCE, JUSTICE, AND SCIENCE
LEGISLATIVE BRANCH, *RANKING MEMBER*
COMMITTEE ON THE BUDGET
SENIOR MAJORITY WHIP
CONGRESSIONAL ASIAN PACIFIC
AMERICAN CAUCUS, CHAIR EMERITUS
CONGRESSIONAL-EXECUTIVE
COMMISSION ON CHINA

The Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

The Honorable Mary L. Schapiro, Chair
Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549

Mr. Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation Board of Directors
550 17th Street NW
Washington, D.C. 20429

The Honorable John G. Walsh, Acting Comptroller
Office of the Comptroller of the Currency
250 E Street SW, Mail Stop 9-2
Washington, D.C. 20219

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

Dear Chairmen Bernanke, Schapiro, Gruenberg and Acting Comptroller Walsh:

As a representative of Silicon Valley, I request reconsideration of your proposed rule written to implement Section 619, otherwise known as the Volcker Rule, of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The proposed rule could negatively suppress the innovative and economic potential of Silicon Valley and our nation, if it restricts venture capital investments, contrary to clear Congressional intent.

I continue to be an ardent supporter of the Dodd-Frank Act and the Volcker Rule, as intended. I believe strong regulation and oversight of the financial service institutions is needed to stave off another economic recession similar to the financial crisis of 2008; the Dodd-Frank Act was crafted to address these concerns.

The Volcker Rule was included to limit the ability of commercial banking institutions and their affiliated companies and subsidiaries to engage in trading unrelated to customer needs and investing in hedge funds and private equity funds. I believe that Congress did not intend for the Volcker Rule to restrict properly conducted venture capital investments. In Title IV of the Dodd-Frank Act, Congress clearly addressed private equity funds and venture capital funds, separately. In Section 619, Congress continued the separation by consistently using the specific term "private equity fund" – not the more broad term "investment advisor."

Furthermore, a short colloquy during the Senate's consideration of the Dodd-Frank Act on July 15, 2010, unambiguously defines Congressional intent. The coauthor of the Dodd-Frank Act and then-Chairman of the Senate Committee on Banking, Senator Christopher Dodd, responded to an inquiry from Senator Barbara Boxer clarifying the intent of the Volcker Rule, Section 619, specifically regarding venture capital investments:

"The purpose of the Volcker rule is to eliminate excessive risk taking activities by banks and their affiliates while at the same time preserving safe, sound investment activities that serve the public interest. It prohibits proprietary trading and limits bank investment in hedge funds and private equity for that reason. But properly conducted venture capital investment will not cause the harms at which the Volcker rule is directed. In the event that properly conducted venture capital investment is excessively restricted by the provisions of section 619, I would expect the appropriate Federal regulators to exempt it using their authority under section 619(J)."

Our nation has worked hard for years to rebuild our economy. We have seen firsthand the destructive power that high risk investment activities can have on our financial system. Properly conducted venture capital investments, however, do not pose the same systemic hazard. As a representative of Silicon Valley, I can attest that venture capital is essential to our nation's economic growth as it spurs innovation and creates new jobs and industries.

Section 619 of the Dodd-Frank Act, the Volcker Rule, was clearly written and intended to further regulate only specific types of high risk investment activities. I urge you to clarify in your final regulations implementing the Volcker Rule that banks may continue to invest in venture capital funds under the current safety and soundness regulations, and not be subject to the Volcker Rule. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael M. Honda", with a long horizontal flourish extending to the right.

Michael M. Honda
Member of Congress