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COMMITTEE ON
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Congress of the United States

House of Representatives

Washington, DC 20515-0305

December 16, 2011

The Honorable Ben S. Bernanke
Chairman
Federal Reserve Board
20th Street & Constitution Avenue, NW
Washington, D.C. 20551

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

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

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

Washington, D.C. 20581
Mr. John Walsh
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
250 E Street, SW
Washington, D.C. 20429

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

Dear Sirs and Madam:

As a member of the House Financial Services Committee, I am concerned that the Notice of Proposed Rulemaking you jointly issued on October 11 declined to take a position on the critically important question of how to treat venture capital funds.

The fundamental goal of the Volcker Rule was simple: to stop banks from engaging in highly risky activities that undermine the safety and soundness of those institutions and the broader financial services sector. The implementation of the rule, however, is more complex. It is critical that the rule not stifle other types of activities, such as venture capital investing, which are vital to our nation's economic health.

When Congress passed the Dodd-Frank legislation, it was clearly expressed through floor statements, letters and other forms of communication that the Volcker Rule should not cover venture capital investing because it does not promote excessive risk and is critical to job creation and continued economic growth. Properly conducted venture capital investing does not carry the types of risk that threaten the safety and soundness of the U.S. financial system. Venture investing is limited in scale, does not use leverage and is long term in nature. In fact, the Financial Stability Oversight Council underscored these points in its report released in January. The Council identified concerns that noted "venture capital funds are fundamentally different from such other funds" as "significant," and recommended that the implementing agencies carefully consider "whether it is appropriate to narrow the statutory definition by rule in some cases," including to exclude venture capital funds. (Council Study and Recommendations at page 62.)

I am therefore disappointed that your agencies released the proposed rule in October without actually taking a position on the economically important question of how to treat venture capital funds. The proposed rule acknowledges both that the agencies have the discretion to refine the definition of covered funds, as proposed in some limited cases for Bank Owned Life Insurance vehicles, asset-backed securitization vehicles, and corporate organizational vehicles and that an exemption for venture capital funds under section (d)(1)(J) *might* be warranted. Yet, the proposed rule did not issue any definitive clarification on the treatment of venture capital funds. Thus, as you move toward a final rule, I urge you to conclude that venture capital funds are not covered by the Volcker Rule, or that they are a permitted activity under Section (d)(1)(J).

At a time when job creation and economic growth remains elusive, competition from foreign competitors is robust, and countries around the globe are trying to take our place as the world's leader in innovation, it is essential that the venture capital market remain healthy and vibrant. Innovative, American start-up companies rely on venture funds to build the business that are driving solutions into every sector of the economy, including the energy and healthcare fields. I urge you to take this into consideration as you finalize the rule.

Thank you for your efforts to implement a rule that promotes innovation and safety and soundness rather than stifles business development and job growth.

Sincerely,



David Schweikert