CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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January 14, 2014

The Honorable Ben Bernanke
Chairman
Board of Governors of the
Federal Reserve
20th Street and Constitution Avenue
Washington, DC 20551

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

The Honorable Mary Jo White
Chair
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

The Honorable Thomas Curry
Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

The Honorable Mark P. Wetjen
Acting Chairman
Commodity Futures Trading
Commission
Three Lafayette Center
1155 21st Street, NW
Washington, DC 20581

Re: Prohibitions and Restrictions on Proprietary Trading and Certain Interests in and Relationships With, Hedge Funds and Private Equity Funds. Docket ID OCC-2011-0014, RIN 1557-AD44; Docket No. R-1432, RIN 7100 AD 82; RIN 3064-AD85; Release No. 34, RIN 3235-AL07; File Number S7-41-11.

Dear Chairman Bernanke, Chairman Gruenberg, Chair White, Comptroller Curry and Acting Chairman Wetjen:

The U.S. Chamber of Commerce ("Chamber") is the world's largest business federation representing the interests of over three million companies of every size, sector, and region. The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for the capital markets to fully function in a 21st century economy. The CCMC welcomes the continued opportunity

to provide input and comment on the impacts of ***Prohibitions and Restrictions on Proprietary Trading and Certain Interests in and Relationships With, Hedge Funds and Private Equity Funds*** ("the Volcker Rule") issued by the Board of Governors of the Federal Reserve ("Federal Reserve"), Federal Deposit Insurance Corporation ("FDIC"), Securities and Exchange Commission ("SEC"), Office of the Comptroller of the Currency ("OCC"), and the Commodity Futures Trading Commission ("CFTC") (also collectively "the regulators").

The CCMC has previously written[1] expressing concerns that the Volcker Rule, as proposed, will have far reaching, negative consequences. Most importantly, the Volcker Rule proposal will impede the ability and increase the cost of non-financial businesses to raise capital and manage risk.

While the full effects and impacts of the Volcker Rule will not be known until the end of the conformance period on July 21, 2015, the application of the final rules are already having unintended consequences with Collateralized Loan Obligations ("CLOs"). The CCMC had asked for a re-proposal of the Volcker Rule so that unintended consequences like these could be identified and corrected before the regulation was finalized.

CLOs provide over $300 billion in financing to thousands of businesses. The Volcker Rule implementing regulations use an excessively broad definition of "ownership interest." This definition determines whether a bank owns an interest in a covered fund, like a hedge fund, that must be divested under Volcker. In the final version of the Rule, the regulators, acting without prior notice, far exceeded the requirements of the statute and their definition of "ownership interest," includes not only equity in such a fund, but also the "right to participate in the election or removal" of the investment manager. In so doing, regulators swept certain bank bond portfolios into a prohibition directed at hedge fund ownership.

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[1] *See* comment letters of October 11, 2011, November 17, 2011, December 15, 2011, January 17, 2012, February 13, 2012, February 14, 2012, April 16, 2012, November 16, 2012, September 25, 2013, November 7, 2013, November 25, 2013 and December 4, 2013 from the U.S. Chamber of Commerce to the regulators and FSOC.

As a result many banks could be forced to sell off debt like CLOs. CLO notes are clearly debt, not equity, and have a long track record of stable and steady performance – the historic default rate of CLOs is under 1.5%, and the loss given default much lower than that. These are assets that withstood the stress of the financial crisis and continue to trade at or close to par.

Banks currently own about $70 billion worth of CLO debt. Efforts to restructure this amount of debt will be overwhelming. This will remove a major source of liquidity from the CLO market, and make it harder for businesses that need the CLO market for loans to find the financing that they need to operate grow and create jobs. And we should be mindful of the fact that CLOs provide financing to businesses that generally cannot access the debt markets affordably, if at all. For many of these companies, term loan financing is their only recourse.

A failure to understand the implications of the Volcker Rule upon businesses will lead to negative consequences that can hamper the ability of companies to access capital, grow, and create jobs. We believe that the regulators should take action to correct the unintended consequences on CLOs and trust preferred bonds associated with the broad definition of ownership interest. Unfortunately, the CCMC believes that this is only the first set of issues with the Volcker Rule that have surfaced. We look forward to working with you all during the conformance period to identify and correct other potential flaws with the Volcker Rule.

Sincerely,

Tom Quaadman