# United States Senate

WASHINGTON, DC 20510

January 8, 2014

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

Dear Chairman Bernanke:

I am writing today regarding the treatment of bank investments in collateralized debt obligations (CDOs) backed by Trust Preferred Securities (TruPS) under the recently finalized Volcker Rule.

As you know, TruPS were popular sources of capital from 2000-2007 because they did not require a coupon and had the advantage of being treated like debt for tax purposes. Banking entities currently hold approximately only $3 billion in the debt securities of TruPS CDOs. Because TruPS no longer qualify as regulatory Tier 1 capital, new TruPS-backed CDOs are not being issued today.

Under the recently proposed Volcker Rule, many banks are now forced to sell off their holdings in CDOs backed by TruPS. Moving these investments from held to maturity and in the banking book to available for sale will require these investments to be marked to market, and could have a significant impact on regulatory capital and earnings for some banks around the country. Non-bank investors will likely have the opportunity to purchase these securities at an extreme discount. This could be an ironic, unintended consequence of the rule you have proposed.

The rationale for forcing banks to sell these assets seems questionable. Since banks hold such a small dollar amount of these securities and nearly all of the affected holders are not systemically important institutions, these investments do not present a systemic risk to the financial system. Do you believe that this rule is consistent with the letter and the intent of the legislation? If so, do you believe this is an appropriate outcome, and if not, would you advise as to what an appropriate solution to this would be?

Sincerely,

Bob Corker
United States Senator

cc:

The Honorable Thomas J. Curry, Comptroller, Office of the Comptroller of the Currency
The Honorable Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation
The Honorable Mary Jo White, Chair, Securities and Exchange Commission
The Honorable Jacob J. Lew, Secretary, Department of the Treasury

The Honorable Mark P. Wetjen, Acting Chairman, Commodity Futures Trading Commission
The Honorable Janet L. Yellen, Vice Chair, Board of Governors of the Federal Reserve System