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Congress of the United States
House of Representatives
STEVE ISRAEL
Second District, New York

FDIC
MAR 9 2012
OFFICE OF LEGISLATIVE AFFAIRS

March 9, 2012

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

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

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

Honorable John Walsh
Acting Comptroller of the Currency
U.S. Department of Treasury
250 E Street, SW Room 9048
Washington, D.C. 20219

Honorable Gary Gensler
Chairman
Commodities Futures Trading Commission
21st Street, NW
Washington, D.C. 20581

Dear Chairman Bernanke, Acting Chairman Gruenberg, Chairman Schapiro, Acting Comptroller Walsh, and Chairman Gensler,

It has come to my attention that several New York state businesses, as well as the Metropolitan Transportation Authority, the City of New York's Office of Management and Budget and the State of New York's Division of the Budget, have submitted written concerns during the open comment period for the proposed rule entitled "Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Fund and Private Equity Funds." The proposed rule refers to section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, better known as the "Volcker Rule."

I am writing to ask that the attached and already submitted comments be carefully considered as you develop the scope and move to finalize the proposed rule. It is critically important that the final rule solidifies the original intent of the legislation: to reduce systemic risk in our financial markets while allowing businesses the access to capital they need in order to hire, grow and thrive. This can be accomplished effectively as long as both the process and the final rule are transparent and accountable. We must support economic growth coupled with the appropriate oversight to prevent future turmoil.

I thank you for your attention to this matter and again urge you to keep the enclosed considerations in mind as you and your staff work diligently on this matter.

Sincerely,

Steve Israel

Steve Israel
Member of Congress

347 Madison Avenue
New York, NY 10017-3739
212 878-7000 Tel

Metropolitan Transportation Authority

State of New York

February 13, 2012

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington, DC 20551

Mr. Robert Feldman
Executive Secretary
Federal Deposit Insurance Corporation
ATTN: COMMENTS
550 17th Street, NW
Washington, D.C. 20429

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
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Ms. Elizabeth Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Proposed Rule Making:

- Board of Governors of the Federal Reserve System, [Docket No. R-1432] (RIN 7100-AD82)
- Federal Deposit Insurance Corporation, (RIN 3064-AD85)
- Office of the Comptroller of the Currency, [Docket No. OCC-2011-14] (RIN 1557-AD44)
- Securities and Exchange Commission, [Release No. 34-65545; File No. S7-41-11]

Dear Ladies and Gentlemen:

The Metropolitan Transportation Authority ("MTA") was created by special New York State legislation in 1965 (the "Metropolitan Transportation Authority Act," New York Public Authorities Law, Title 11, Section 1260, et. seq.), as a public benefit corporation. MTA is a corporate entity separate and apart from the State of New York (the "State"), without any power of taxation – frequently called a "public authority." MTA has the responsibility for developing and implementing a unified mass transportation policy for The City of New York (the "City") and Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk and Westchester counties (collectively with the City, the "MTA Commuter Transportation District"). The MTA is a frequent issuer of tax-exempt bonds with over $30 billion in debt outstanding. These bonds are used to improve, maintain and extend the public mass transportation system of the MTA Commuter Transportation District, serving a population of over 15.5 million.

We are writing to express our concern regarding certain elements of the notice of proposed rulemaking[1] (the "Proposal") issued by the Board of Governors of the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Securities and Exchange Commission (collectively, the "Agencies") to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Volcker Rule").

[1] Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds, 76 Fed. Reg. 68,846 (Nov. 7, 2011)

The Volcker Rule exempts municipal securities from its ban on proprietary trading; however, rather than using the definition of "municipal securities" established by the Securities Exchange Act of 1934 (the "1934 Act")[2], the Agencies propose to use a narrower interpretation. The Proposal would not include agencies or authorities of States or their political subdivisions, meaning an estimated 40% of municipal securities in the market today would be excluded from the Volcker Rule's exemption, including the MTA. We believe this narrow interpretation included in the Volcker Rule exemption will have significant material adverse impacts on the liquidity of securities issued by these entities and, in turn, the primary market pricing and secondary market trading of their securities. We share the view of the Municipal Securities Rulemaking Board[3] that the costs of these adverse impacts will ultimately be borne by the governmental issuers of these securities and the investors (primarily retail) that purchase them.

We are concerned that the current version of the Proposal will result in increased funding costs for important governmental infrastructure projects and diminished investor liquidity in the municipal securities market, while doing nothing to improve the safety and soundness of the banking system.

Thank you for your attention and assistance in these matters.

Sincerely,

Patrick J. McCoy

Patrick J. McCoy
Director, Finance

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[2] The 1934 Act defines "municipal securities" to include securities which are direct obligations of, or obligations guaranteed as to principal or interest by, a State or any political subdivision thereof, or any agency or instrumentality of a State or any political subdivision thereof, or any municipal corporate instrumentality of one or more States, or any securiy which is a tax-exempt industrial development bond.
[3] Comment Letter of the Municipal Securities Rulemaking Board to the Agencies dated January 31, 2012.

The City of New York
Office of Management and Budget
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Mark Page
Director

February 13, 2012

Office of the Comptroller of the Currency
250 E Street, SW., Mail Stop 2-3
Washington, DC 20219
Docket ID OCC-2011-14; RIN 1557-AD44

Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attn: Jennifer J. Johnson, Secretary
Docket No. R-1432; RIN 7100-AD82

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attn: Comments
Robert E. Feldman, Executive Secretary
RIN No. 3064-AD85

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Attn: Elizabeth M. Murphy, Secretary
Release No. 34-65545; File No. S7-41-11; RIN 3235-AL07

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

Ladies and Gentlemen:

The City of New York (the "City") submits this letter in response to the requests for comments from the addressees of this letter (the "Agencies") on the above-referenced proposal (the "Volker Proposal"). In particular, we are addressing the Agencies' question number 120 in the Volker Proposal. We appreciate the opportunity to comment on the Volker Proposal and hope that our comments will be helpful to the Agencies.

The City, through its general obligation bonds and bonds of City-related issuers, issues over $6 billion of municipal bonds each year to finance its capital program, making it one of the largest (if not the largest) issuers of municipal bonds in the United States. The City and its two primary financing entities expect to issue about $32 billion of bonds during the City's 2012 through 2016 fiscal years to support its current capital program. Approximately 40% of our total borrowing is done through the issuance of general obligation bonds by the City, a municipal corporation and political subdivision of the State of New York (the "State"). The remainder of the City's capital program is financed through the issuance of bonds by the New York City Transitional Finance Authority (the "TFA"), a corporate governmental agency constituting a public benefit corporation and an instrumentality of the State, and the New York City Municipal Water Finance Authority ("NYW"), a body corporate and politic constituting a public benefit corporation. The TFA and NYW were created by the State legislature at the request of the City to provide financing vehicles in addition to City debt for the City's capital program, have governing boards comprised solely (in the case of the TFA) or largely (in the case of NYW) of City ex officio members, and are staffed by the same City employees who direct the City's general obligation financing program. All three of the City's primary credits have credit ratings in the double-A category or higher, and senior lien bonds issued by NYW and TFA, which have no operating responsibilities or significant liabilities other than their outstanding bonds, are more highly rated than the City's general obligation bonds.

Given the size of the City's capital program and the concomitant financing needs, the City has a compelling interest in the proper functioning of the municipal securities market. The City's total debt service, which includes debt service on City, TFA and NYW bonds, as well as certain conduit issuers, is projected at approximately $7 billion in fiscal year 2012, growing to about $9.5 billion by fiscal year 2016. Over the past several years, the City has cut City agency discretionary spendingeleven times, resulting in spending reductions which will amount to over $6 billion annually by fiscal year 2013, and is facing multi-billion dollar budget gaps in the upcoming fiscal years. Therefore, keeping these non-discretionary debt service costs as low as possible is crucial to the City's ongoing fiscal health and its ability to continue delivering the wide range of services that it provides for its residents.

The City believes that the market making activities of municipal securities dealers, the largest of which would be subject to the Volker Proposal, provide an important source of liquidity for investors in its bonds and the bonds of its related financing entities. Moreover, since the municipal securities market is an over-the-counter market, those activities contribute to price transparency and efficiency in the market, benefitting investors and issuers alike. Restrictions on dealers' ability to trade and make markets in municipal bonds would reduce the liquidity and efficiency of the municipal bond market, result in increased price volatility and drive up debt service costs of the City and other municipalities, as investors demand higher yields to protect themselves against illiquidity and volatility.

In apparent recognition of the relative safety of certain types of securities, section 13(d)(1)(A) of the Bank Holding Company Act permits banking entities to engage in the proprietary trading of certain types of government securities, including securities of States and political subdivisions thereof. The Agencies are proposing to interpret the statutory exemption to exclude the securities of State and local agencies. This narrow interpretation of the statutory term "political subdivision" would prohibit banking entities from trading in NYW and TFA bonds, while exempting bonds of the City, a political subdivision of the State, from its restrictions. As noted above, NYW and TFA are authorities created under State law to assist the City in financing its capital program and have credits at least as strong as the City's general obligation credit. It simply makes no sense to permit proprietary trading in City debt while prohibiting it in TFA and NYW debt.

A large portion of the municipal securities market is comprised of debt of "agencies" of States and political subdivisions. To bifurcate this market between States and political subdivisions, on the one hand, and their "agencies", on the other, would not further the goal of protecting the soundness and financial stability of banking entities but would pose a substantial risk of impairing the efficiency of the market, reducing liquidity for holders of municipal bonds and increasing the financing costs of States and localities at a time when many are struggling with the lingering effects of the Great Recession.

Municipal securities are among the safest securities in the United States' capital markets, with very low default rates. We urge the Agencies to interpret "political subdivisions" in a way consistent with the definition of "municipal securities" under the Securities and Exchange Act of 1934, which we believe would be consistent with the statutory language, would further the statutory intent and would avoid an unintended disruption of the municipal securities market leading to increased debt service burdens on States and local governments.

Thank you for the opportunity to comment on this important issue.

Yours truly,

Mark Page

STATE OF NEW YORK
EXECUTIVE DEPARTMENT
DIVISION OF THE BUDGET
ALBANY, NY 12224

ANDREW M. CUOMO
GOVERNOR

ROBERT L. MEGNA
DIRECTOR OF THE BUDGET

February 13, 2012

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency
Securities and Exchange Commission

Proposed Rule Making:

- Board of Governors of the Federal Reserve System [Docket No. R-1432] (RIN 7100-AD82)
- Federal Deposit Insurance Corporation (RIN 3064-AD85)
- Office of the Comptroller of the Currency [Docket No. OCC-2011-14] (RIN 1557-AD44)
- Securities and Exchange Commission [Release No. 34-65545; File No. S7-41-11]

Ladies and Gentlemen:

The New York State Division of the Budget (the "Division") submits this letter in response to the request for comments on the proposed rule (the "Proposed Rule") issued by the Board of Governors of the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Securities and Exchange Commission (collectively, the "Agencies") to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Volcker Rule").[1] The Division is responsible for advising the Governor on fiscal matters. The Division prepares the Governor's Executive Budget and the State's official Financial Plan projections, implements the budget once it is adopted, and oversees the State's capital program and debt financing activities. The Director of the Division is appointed by the Governor.

New York State is a large and active participant in the municipal bond market in the United States, with $56 billion in bonds currently outstanding. New York State expects that approximately $5 billion in bonds ("State-supported bonds") will be issued in the coming year to finance the State's capital program. These State-supported bonds are issued in two ways — through the State's public benefit corporations that issue bonds on behalf of the State, and by the State directly in the form of general obligation bonds. State-supported bonds finance a wide range of important capital purposes,

[1] 76 FR 68846-01 (Proposed Rules of the Department of the Treasury, Office of the Comptroller of the Currency; the Board of Governors of the Federal Reserve System; the Federal Deposit Insurance Corporation; and the Securities and Exchange Commission.

including transportation, higher education, public safety, and environmental projects. New York State has never defaulted on its State-supported bonds, including those issued on its behalf by public benefit corporations.

For legal and practical reasons, most State-supported bonds are issued through public benefit corporations, the most important of which are the Dormitory Authority of the State of New York, the Empire State Development Corporation, and the New York State Thruway Authority. In a typical fiscal year, 90 percent of borrowing to finance the State's capital program is done through such public benefit corporations, with the remainder done as general obligation bonds. The State's principal bonding program is the Personal Income Tax ("PIT") Revenue Bond Program. PIT bonds, which are secured by a pledge of 25 percent of the State's PIT receipts, may be issued by any of the State's principal public benefit corporations. PIT bonds are rated on parity with, or better than, the State's general obligation bonds. The State has several other high-rated credits, as well, that are issued exclusively by its public benefit corporations for State purposes.

State borrowing for capital purposes -- whether done by the State's public benefit corporations acting on behalf of the State or directly by the State itself -- is governed by similar rules and characteristics that, taken together, merit uniform treatment as comparable municipal securities. First, all State-supported borrowing is secured, directly or indirectly, by revenues levied by the State. Second, the State appropriates debt service for all State-supported debt in a single annual debt service appropriation bill, signifying the comparable character and treatment of the bonds. Third, all State-supported bonds may be issued only upon authorization of the State Legislature and the approval of the Division. Fourth, the offering statements for all State-supported bonds include disclosure on the State's financial position, reflecting the State's financial relationship to the bonds. Lastly, all State-supported bonds, whether issued directly as a general obligation of the State or on its behalf by its public benefit corporations, are counted by the State's auditors and the credit rating agencies as State-supported debt.

From the perspective of the State and participants in the bond market, therefore, both general obligation bonds and bonds issued by public benefit corporations on behalf of the State are treated in a substantially similar manner. In our view, the Agencies' narrow interpretation of the definition of "political subdivisions" in the proposed Volcker Rule does not recognize this substantially similarly treatment. Instead, the interpretation would arbitrarily divide the State-supported debt into two classes based solely on the identity of the issuing entity. From the standpoint of mitigating risk and promoting financial stability, there is no rational basis for prohibiting banks from trading in New York's highly-rated PIT and other bonds issued by its public benefit corporations but allowing them to trade in its similarly-rated general obligation bonds. Accordingly, we urge the Agencies to interpret "political subdivisions" consistent with the definition of "municipal securities" under the Securities and Exchange Act of 1934.

Moreover, as currently drafted, the Proposed Rule creates considerable confusion. On the one hand, the Rule would permit trading in "an obligation issued by any State or any political subdivision thereof." On the other hand, the Release advises (fn. 165) that "the proposed rule does not extend the government obligations exemption to transactions in obligations of an *agency* of any State or political subdivision thereof" (emphasis in original). The entities listed above (Dormitory Authority, Empire State Development Corporation, and New York State Thruway Authority) were each created by State statute as a body corporate and politic constituting a public benefit corporation (or similar statutory structure to permit the issuance of bonds on behalf of the State), and thus the status of the bonds of such entities under the proposed Volcker Rule is unclear. The Division is concerned that the restrictions in fn. 165 quoted above could have a significant material adverse impact on the liquidity of securities issued by these entities and, in turn, the primary market pricing and secondary market trading of their securities. We believe there is a strong likelihood that any such material adverse impact will result in increased costs that will ultimately be borne by the State and the investors that purchase State-supported bonds.

The Division believes that the Agencies have the authority under the Volcker Rule to use the 1934 Act definition of "municipal securities" and would urge you to amend the proposed rule consistent with such definition.

Thank you for the opportunity to comment on this important matter.

Sincerely,

Robert L. Megna

Robert L. Megna

American Public Power Association
Council of Infrastructure Financing Authorities
Government Finance Officers Association
Education Finance Council
International City/County Management Association
International Municipal Lawyers Association
Large Public Power Council
National Association of Counties
National Association of Health and Educational Facilities Finance Authorities
National Association of Local Housing Finance Agencies
National Association of State Auditors, Comptrollers and Treasurers
National Association of State Treasurers
National Conference of State Legislatures
National Council of State Housing Agencies
National League of Cities
U.S. Conference of Mayors

February 13, 2012

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington, DC 20551

Mr. Robert Feldman
Executive Secretary
Federal Deposit Insurance Corporation
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Office of the Comptroller of the Currency
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Ms. Elizabeth Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
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Proposed Rule Making:

- Board of Governors of the Federal Reserve System, [Docket No. R-1432] (RIN 7100-AD82)
- Federal Deposit Insurance Corporation, (RIN 3064-AD85)
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- Securities and Exchange Commission, [Release No. 34-65545; File No. S7-41-11]

Dear Ladies and Gentlemen:

The organizations listed above represent states, counties, cities and other governmental entities and authorities that access the municipal bond market in order to provide critical infrastructure and services to their jurisdictions and communities. Our comments are directed to the proposed rulemakings referenced above, namely the proposed "Volcker Rule" related to Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and specifically related to questions 120 and 124 in the proposed rule. We urge each agency above to replace the proposed exemption for obligations of states and political subdivisions so that it is consistent with the definition of "municipal securities" included in the Securities Act of 1934[1] ("the '34 Act").

[1] Section 3(a)(29) of the Securities Act of 1934.

The proposed rule appropriately seeks to exempt municipal securities from the section related to banking institutions engaging in certain proprietary trading activities in keeping with the statute and Congress' intent. However, the proposed rule would create an exemption for municipal obligations that is defined too narrowly as including only "obligations of states and political subdivisions thereof." This definition is grossly under-inclusive and differs from the well-established and relied upon definition of municipal securities that is found in the '34 Act - "obligations guaranteed as to principal or interest by, a State or any political subdivision thereof, or any agency or instrumentality of a State or any political subdivision thereof, or any municipal corporate instrumentality of one or more states, or any security which is in an industrial development bond." If made final, the definition in the proposed rule would exclude thousands of municipal securities, disrupting the municipal market and raising costs for state and local governments. Given that one of the principal purposes behind the Volcker Rule is to mitigate risk, the lack of uniformity would unfairly treat economically similar debt instruments differently from one another for the purposes of municipal securities trading. Additionally, "one-off" rulemaking should not be used to develop a new, separate definition of municipal securities.

Municipal debt is issued both by governmental entities themselves (e.g., states, cities, and counties) for their own purposes and also through statutorily defined authorities and agencies for defined, circumscribed, and critical purposes such as for water and sewer, electricity, airports, housing, health care and education. Due to the variety of ways in which debt can be issued pursuant to federal, state and local laws, most expert reviewers believe the definition in the proposed rule does not adequately capture our market and could leave at least 40% of the market exposed to Volcker Rule restrictions on proprietary trading, therefore limiting market liquidity and increasing costs for municipal securities. There is absolutely no indication that Congress contemplated or supported this severe bifurcation and distortion of the market. Indeed, other areas of financial regulation have interpreted "obligations of states and political subdivisions thereof" broadly to include all municipal securities in the '34 Act.

The narrow interpretation of which types of municipal securities are exempted under the proposed Volcker Rule would result in arbitrary distinctions between economically similar assets held by banks. For example, in some states, such as Georgia, a substantial portion of bonds issued for the purpose of financing water and sewer projects are supported by water and sewer system revenue and, due to requirements in state law, are issued as limited, direct government obligations. Under the proposed Volcker Rule, Georgia water and sewer bonds would generally be exempt from proprietary trading restrictions. In neighboring South Carolina, on the other hand, many water and sewer bonds, while also backed exclusively by water and sewer revenue, are issued by government authorities, not by governments themselves. South Carolina water and sewer bonds, while similar in many fundamental respects to Georgia water and sewer bonds, would be subject to Volcker Rule restrictions. There is no reasonable basis for such a distinction.

Moreover, expanding the exemption for municipal securities under the Volcker Rule would pose no additional risk to banks or the banking system. Municipal securities are among the safest assets in the U.S. capital markets. Default rates for municipal securities are among the lowest of all sectors of the capital markets, second only to bonds backed directly by the U.S. government. Banks have been active participants in the U.S. municipal bond market, holding nearly nine percent of the over $3.7 trillion of municipal obligations outstanding, and have been active municipal bond investors for many decades. We are not aware of any cases where municipal securities holdings have caused safety and soundness problems for either individual banks or on a systemic basis.

We believe that the intent of the proposed Rule, as well as the Dodd Frank Act law itself, is to exclude all municipal securities from being captured under the Volcker Rule. Previous rulemaking by the agencies involved in developing the proposed rules demonstrates a more inclusive definition of municipal securities, mirroring the definition included in the Securities Act of 1934.

Again, we urge the Federal Reserve, OCC, SEC and FDIC to amend the exemption contained in the proposed rule and align it with the common definition of municipal securities found in the '34 Act that has served our country well for 80 years.

Thank you again for the opportunity to comment on this important issue.

Sincerely,

American Public Power Association, Amy Hille, 202-467-2929
Council of Infrastructure Financing Authorities, Rick Farrell, 202-256-0298
Government Finance Officers Association, Susan Gaffney, 202-393-8468
Education Finance Council, Vince Sampson, 202-955-5510
International City/County Management Association, Elizabeth Kellar, 202-962-3611
International Municipal Lawyers Association, Chuck Thompson, 202-742-1016
Large Public Power Council, Noreen Roche-Carter, 916-732-6509
National Association of Counties, Mike Belarmino, 202-942-4254
National Assn. of Health and Educational Facilities Finance Authorities, Chuck Samuels, 202-434-7311
National Association of Local Housing Finance Agencies, John Murphy, 202-367-1197
National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou, 202-624-5451
National Association of State Treasurers, Jon Lawniczak, 859-244-8175
National Conference of State Legislatures, Michael Bird, 202-624-8686
National Council of State Housing Agencies, Garth Riemen, 202-624-7710
National League of Cities, Lars Etzkorn, 202- 626-3173
U.S. Conference of Mayors, Larry Jones, 202-861-6709