

February 7, 2012

SEC Headquarters  
100 F Street, NE  
Washington, DC 20549  
Attn Chairman Mary Schapiro

2012 MAR 28 A 9:41  
OFFICE OF THE SECRETARY  
RECEIVED

Re: **Robust Comments from the Public Regarding the Volcker Rule**

Dear Chairman Mary Schapiro,

You had testified to the House Financial Services Committee that you "look forward to robust public comment on all aspects of the joint Volcker proposal". I am writing you directly as the comments I have are robust, substantive and pivotal in the future of the Volcker Rule which is designed to prevent future bailouts.

The Margin Departments of Broker Dealers have effectively minimized risk for decades by comparing the effect of customer positions on customer equity. It is disciplined and constant analyses of positions versus equity that assures the customer can absorb the loss, and the broker is insulated from exposure. Recently the SEC has recently requested banks voluntarily forward their holdings of sovereign debt, and respective exposures. If the banks have sufficient equity, then there should be no risk of a bailout.

In 2001, the US Patent Office granted me patent 6,144,947 for a system which calculates SEC Rule 15c3-1 Haircuts on basic securities positions such as stocks and bonds held by a Broker Dealer. The system has an input / output device specifically designed for a regulator to view the effect of positions on a broker-dealers net capital. In doing so, the US Patent Office has enabled regulators such as the SEC and FINRA the ability to see the effect of proprietary positions on net capital.

***As the US government has legally enabled itself to effectively regulate the impact of proprietary positions, then what right does the US Government have to advise banks and broker dealers to trade or invest their own property for the pursuit of wealth?*** The US Government has formally enabled the means of regulation without burdening the banks or layoff of employees.

If the banks and broker-dealers were to submit their positions to one system under the scrutiny of the regulatory bodies, then only one set of examiners would be required to examine one system instead of the current situation of resources being stretched. If haircuts of the system are considered bona fide as the system is under the scrutiny of the regulator, then the bank and broker-dealer would be alleviated of the cost of preparation, the cost of time expended on internal auditors, the professional fees allocated to external auditors and the time expended on examination.

### ***Why should it interest Banks and Broker-Dealers transmit their positions?***

- The banks would willingly disclose their positions electronically in order to maintain their existing revenue streams avoid collectively expending billions of dollars and compliance and avoid laying off thousands of employees.
- If the Banks and Broker-Dealers transmit their positions, and substantiate sufficient capital, then they distinguish themselves from the same which do not, and drive customer assets to them.
- The less risk exposure an entity takes on, the less regulatory capital then entity should have to raise. Alan Greenspan once state. "Adequate Capital eliminates the need for unachievable specificity in regulatory fine tuning" The converse should be true: Achieved Specificity in Regulatory Fine tuning Eliminates excessive regulatory requirements and the need for future bailouts.
- If the Banks and Broker-Dealers transmit their positions, and substantiate sufficient Capital, then they should receive favorable rates on FDIC and SIPC premiums.

### ***Why must Regulators use one system?***

- To review many systems instead of one is a waste of taxpayer funds. Every cent of the federal budget wasted expended on review of a variety of systems is a cent not going to some seniors Medicaid or to the troops at war. To take those funds in immoral. If the Volcker Rules were passed, electronic transmission would still be more effective than spot checking.
- The player and the scorekeeper cannot be one and the same. Figures do not lie, so simply transmit the raw information electronically. Independent Calculations enhance the integrity of the process.

### ***Why will the Federal Government use one system?***

- Federal Legislation to remove revenue streams of the banks and broker dealers while The US Patent Office has formally enabled the Federal Government Itself to regulate Revenue streams should be sorted by another Federal Entity: The Judiciary.

The Judiciary should likely side with the banks as the shares costs of utilizing one system would be considerably less costly than the billions estimated in compliance costs.

If could be decided outside the authority of the House Financial Services Committee that the Banks and Broker Dealers are due every cent of revenue made from trading from the Federal Government. If SIPC is to pay the Stanford victims, then a precedent may be set the Federal Government may liable of other claims.

- Revenues for the Banks and Broker-Dealers mean tax revenues for the government. If the Federal Government limits bank revenues they limit revenues for themselves.

Electronic Transmission of Firm Positions is valuable for the **prevention of Ponzi Schemes**. If the outstanding amount of shares reported from bank and broker dealers exceed issuance, then someone is not telling the truth. If the shares stated are reconciled with what the custodian (e.g. DTC) states the bank or broker-dealer holds, then the identity of the party falsifying would be exposed.

The costs of a system to aggregate positions and reconcile with custodians would be severely less than tens of billions lost in the Madoff and Stanford Ponzi Schemes. If SIPC is going to be sued for billions for the Stanford Ponzi scheme, then in long run it is best to embrace a form of regulation to insure SIPC will not be sued again.

Electronic Transmission of Firm Positions is necessary for insurance of **national sovereignty**. Recently Germany had suggested having a European presence to control the Greek Budget. Ireland and Spain are behind Greece due to the real estate speculation of their banks. Electronic transmission of positions on a standardized platform would visibility to undue concentration of bubble assets.

Similarly, customer reserve calculations could be done remotely by a singular system if the financial entities were to transmit their trial balance electronically. **What is the process to eliminate MF Global's going forward?**

- The Bank or Broker Dealers send their trial balance inclusive of customer accounts daily, Security allocation and fail file.
- The system then calculates the Bank or Broker Dealer reserve requirement daily
- The Bank or Broker Dealer forwards a screen shot of the bank statement of the reserve for exclusive benefit of the customer to the regulator on a daily basis.

The common thread to prevention of regulatory shortcomings is the transmission of raw information electronically. If deceit is the absence of truth, then the truth needs to be submitted to the regulator electronically. Gary Gensler may have said "a computer cannot litigate in court" but utilization of computers to report details would have eliminated the need of attorneys in the courts sorting out the details in the courtrooms. The government should utilize the best processes available to insure it is not a target of a litigious society.

As the US Government has enabled itself to effectively monitor the effect of firm positions on net capital, and the means to do so would be cost efficient for the tax payer, there really is no reason for the US Government to mandate banks and broker-dealers eliminate legitimate revenue streams, collectively expend billions and throw their employees out of work.

John Locke believed the pursuit of property was a God given right to be sustained by representative government which serves the people. Implementation of the Volcker Rule would circumvent a legal person's natural right to acquire more property in the general pursuit of happiness. It would disgust the founding fathers such as Jefferson and Hamilton to see the government the envisioned take away a natural right it was which the government created was intended to sustain.

I hope you now feel it is "appropriate" to use the system.

Sincerely

Peter Schwartz

[www.patentedtransparency.com](http://www.patentedtransparency.com)

CC:

United States Chamber of Commerce

The House Finance Services Committee

Federal Reserve Governor Daniel Tarullo

FDIC Chairman Martin J Gruenberg FDIC

John Walsh Comptroller of The Currency

CFTC Chairman Cary Gensler

SIPC Chairman Orlan Johnson

SIFMA Chairman Jerry Del Missier

And various others.

March 20, 2012

SEC Headquarters  
100 Washington Street, NE  
Washington DC 20549  
Attn. Chairman Dan Gallagher

Dear Chairman Gallagher

If technology exists with the same benefits as the Volcker Rule in preventing systemic risk while lowering taxes, then it should be considered before the Volcker Rule whose passage would not lower costs but create “unacceptably high” costs for the country.

As long as it can be established the impact of positions in proprietary accounts does not exceed the regulatory requirements of capital standards, then there really is no reason for the government to mandate the removal of proprietary trading from banks and broker-dealers.

In 2001 I was granted Patent 6,144,947 which enables the regulator to see the impact of firm positions on Net Capital in real-time for broker-dealers according to SEC Rule 15c3-1. If the broker-dealers were to transmit their positions to one standardized system, and the system were to calculate 15c3-1 Haircut Deductions, then this would eliminate costs to the broker-dealer of preparation, internal audit, external audit and regulatory examination. It would reduce resources allocated by the SEC and FINRA on examining the accuracy of haircuts.

Consequently the role of the regulator should be likened to an umpire in baseball which calls positions within regulatory limits fair, and outside regulatory limits foul. This structure of regulation where the natural right to trade one's own wealth is only limited to regulatory standards, represents the best balance of interests of the financial entities and the taxpayer.

The best way to circumvent implementation of the Volcker Rule is to promote a cost effective alternative which already has the blessing of the Federal Government. If you read through the enclosed letter to Chairman Schapiro, and weigh the comments in your conscience objectively, then you should also provide your blessing to the proposed alternative.

Sincerely,

Peter Schwartz

[www.patentedtransparency.com](http://www.patentedtransparency.com)