IR+M
INCOME RESEARCH + MANAGEMENT

January 20, 2012

By Electronic Submission

Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Board of Governors of the Federal
Reserve System
20th Street and Constitutional Avenue, NW
Washington, DC 20551

United States Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Re: Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds – Income Research & Management Comment

Department of the Treasury, OCC: Docket ID OCC-2011-14
Federal Reserve: Docket No. R-1432 and RIN 7100 AD82
Federal Deposit Insurance Corporation: RIN 3064-AD85
Securities and Exchange Commission: RIN 3235-AL07

Dear Sirs and Madams:

Income Research & Management ("IR+M") is a fixed income asset management firm with approximately $30 billion in assets under management as of December 31, 2011. IR+M manages portfolios on behalf of individual and institutional investors including private and public pension plans, insurance entities, healthcare providers, universities, foundations, and corporations and has been an active participant in the U.S. credit markets since its inception in 1987.

We are writing to express our concern with regards to the proposed implementation of the new Section 13 of the Bank Holding Company Act of 1956 which was added by Section 619 of the Dodd-Frank Act. Specifically, we are replying to questions 83, 85, and 86 (reprinted in the Appendix hereto) from the Notice of Proposed Rulemaking. While the following paragraphs do not address all of our concerns with regard to the undesired effects of the proposed rules, our intent is to convey our desire for a robust and liquid domestic fixed income market for the benefit of all market participants, including our clients.

Section __.4(b)(2)(v) of the proposed rule mandates that the activities of market making banking entities must be designed to generate revenues primarily from fees, commissions, bid/ask spreads or other income not attributable to appreciation in the value of covered financial positions it holds in trading accounts or the hedging of covered financial positions it holds in trading accounts. In effect, this rule compels market makers to trade on an agency basis rather than a principal basis. It is our opinion that the domestic corporate and securitized (*i.e.* commercial, residential, and asset backed mortgage securities) credit markets are too large and heterogeneous to be served appropriately primarily by an agency trading-based model.

To illustrate our point, please permit an example. Bond issuers typically have many debt issues concurrently outstanding. As of 12/31/2011, the thirty constituents of the Dow Jones Industrial Average have 1,169 debt instruments outstanding collectively; by ISIN, bonds outnumber stocks by nearly 39 to 1 in this sample. Maturity dates of the debt instruments sampled range from early 2012 to 2097. Some of these bonds are callable, some are putable, some are convertible into stock, and some pay a fixed coupon while others pay a coupon that resets periodically. Daily trading volumes for specific issues in this sample range from zero to greater than $100 million in par value. In short, this sample is too diverse in supply, demand, structure, and risks to trade in an orderly fashion in an agency trading-based market. It is IR+M's opinion that the lack of liquidity that could accompany an agency trading-based market may lead to higher transaction costs for our clients and higher interest costs for issuers of debt in the US capital markets.

We write to appeal that traditional flow-oriented principal trading should be explicitly defined and allowed. Principal trading-based market making involves the buying and selling of similar instruments on a limited speculative basis. This trading style allows financial intermediaries to create liquidity for their customers by buying or selling bonds in the absence of opposing transactions by other customers. If trading desk exposures are monitored, reported, and controlled as proposed elsewhere in the Notice of Proposed Rulemaking, the risk of principal trading should be minimized and thus will not pose a material firm or systemic risk.

Sincerely,

William A. O'Malley

William A. O'Malley, CFA
Managing Principal

Appendix

<u>*Question 83.*</u> What impact will the proposed multi-faceted approach have on the market making-related services that a banking entity provides to its customers? How will the proposed approach impact market participants who use the services of market makers? How will the approach impact the capital markets at large, and in particular the liquidity, efficiency and price transparency of capital markets? If any of these impacts are positive, how can they be amplified? If any of these impacts are negative, how can they be mitigated? Would the proposed rule's prohibition on proprietary trading and exemption for market making-related activity reduce incentives or opportunities for banking entities to trade against customers, as opposed to trading on behalf of customers? If so, please discuss the benefits arising from such reduced incentives or opportunities.

<u>*Question 85.*</u> Are there particular asset classes that raise special concerns in the context of market making-related activity that should be considered in connection with the proposed market-making exemption? If so, what asset class(es) and concern(s), and how should the concerns be addressed in the proposed exemption?

<u>*Question 86.*</u> Are there other market making-related activities that the rule text should more clearly permit? Why or why not?