



ColumbiaManagement™

February 10, 2012

Department of the Treasury
Office of Domestic Finance
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20520

Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, S.W., Mail Stop 2-3
Washington, D.C. 20219

Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Commodity Futures Trading Commission
1155 21st Street, N.W.
Washington, D.C. 20551

**Re: Restrictions on Proprietary Trading - OCC Docket ID 2011-14; FRB Docket
No. R-1432 & RIN 7100 AD 82; FDIC RIN 3064-AD85; SEC File No. S7-41-11;
CFTC RIN 3083-AC**

Dear Madames/Sirs:

Columbia Management Investment Advisers, LLC (“Columbia”) is a U.S. registered investment adviser with offices around the United States and is part of Ameriprise Financial, Inc. (“Ameriprise”), a publicly traded financial services company. As of December 31, 2011, Columbia managed approximately \$300.5 billion on behalf of clients worldwide, including mutual funds, pension funds and the retail public.

We appreciate the significant time and dedication of the several federal agencies (“Agencies”) in seeking to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and appreciate the opportunity to comment on the proposed rules (the “Proposed Rules”) issued by the Agencies to implement Section 619 (often referred to as the Volcker Rule). The Agencies have received, and will be receiving, many comments on the Proposed Rules, including comments from the various trade associations of which we or our affiliates are members. With our employees having engaged in many conversations with the trade associations, we are confident that the comments from the trade associations on the Proposed Rules will raise valid and significant concerns with respect to the Proposed Rules. Although we have many concerns with the Proposed Rules (which we expect to be reflected in many comment letters), we believe that as large purchasers and sellers of fixed income securities in the market place for the benefit of our clients, we must, on behalf of



our diverse client base, voice our specific concern with respect to the potential impact that the Proposed Rules may have on the liquidity within the fixed income market.

Banking entities are important and substantial participants in the fixed income marketplace. A functioning fixed income market is critical to the needs of a broad spectrum of market participants, ranging from mutual fund shareholders, 401(k) participants and pension beneficiaries to the many businesses that issue debt using the capital markets to grow their operations and create jobs. Many of the concerns that we have with the Proposed Rules and their potential impact on liquidity in the fixed income markets have been thoughtfully presented by AllianceBernstein in its letter to the Agencies dated November 16, 2011 (the "AllianceBernstein Letter"), and we fully support each of the concerns raised by AllianceBernstein in its letter.¹

In recognition of the time constraints facing the staff of the Agencies, we will not repeat the concerns identified by AllianceBernstein in its letter but, instead, offer a few additional observations below for the Agencies' consideration.

Mutual Fund Liquidity

Mutual funds, which have assets of over \$11 trillion and represent a critical savings vehicle for millions of Americans, offer to redeem their shares on each business day. This continuous offer to redeem shares is important to mutual fund shareholders in connection with their decision to invest in mutual funds. In this regard, the ability of mutual funds to liquidate assets in an orderly manner is critical to meeting fund shareholder expectations. Mutual funds (as well as other market participants) purchase hundreds of millions of corporate fixed income securities on a daily basis with the expectation that such securities can be readily sold without difficulty through primary market makers, the largest of which are banking entities.² As you know, liquidity in the fixed income market place is not free and transaction costs are directly related to the willingness of buyers and sellers to purchase and sell securities; in this regard, banking entities play a major role by purchasing, and holding in inventory, securities that do not necessarily have another matching buyer. If banking entities curtail market making activities and reduce their inventory of corporate fixed income securities,³ liquidity and market prices of such securities will be adversely impacted through supply and demand imbalances, leading to an increase in the volatility of a fund's net asset value and increased costs for millions of mutual fund shareholders. In addition, a lack of liquidity would also cause higher costs and risks for mutual

¹ See also Oliver Wyman Study commissioned by the Securities Industry and Financial Markets Association (SIFMA): "The Volcker Rule: Considerations for implementation of proprietary trading regulations", which can be located at <http://www.sifma.org/issues/item.aspx?id=22888>.

² The top ten dealers in secondary market trading in investment grade corporate fixed income securities and high yield corporate fixed income securities represent approximately 76% and 94%, respectively, of market share. All of these top ten dealers are banking entities under the Volcker Rule.

³ We note that based upon the data available from the Federal Reserve Bank of New York, primary dealer positions in corporate fixed income securities as of the end of 2011 have fallen to mid-2002 levels even as the value of outstanding corporate fixed income securities has increased dramatically over that time frame.



funds if funds must enter into a higher level of derivative contracts with banking entities (assuming such banking entities were even willing to enter into such derivative contracts) in order to satisfy redemption requests of mutual fund shareholders. To the extent that fixed income mutual funds were to become unable to meet liquidity needs of shareholders or merely perceived as being unable to do so, we believe that this would lead to a loss of confidence in such funds, potentially undermining the benefits that mutual funds have provided to investors for decades and to the corporate issuers whose securities mutual funds purchase.

Investment and Savings Goals

Many investors rely on fixed income securities for income as well as relative safety or stability of principal in connection with pursuing their investment and savings goals (such as retirement and college savings), with many investing in mutual funds directly or through other investment options (such as insurance and annuities) as part of their financial planning. Whether we are purchasing fixed income securities directly for the account of our clients or indirectly for clients through mutual funds, the orderly and efficient functioning of the fixed income securities market is critical in seeking to achieve financial goals. A less efficient fixed income market from reduced liquidity will lead to increased costs imbedded in the fixed income markets, both in the form of fixed income spreads and the volatility of asset values. Higher costs of owning and trading fixed income securities will be directly felt by those in retirement or seeking to save for retirement or achieve other financial goals.

Exception for Government Debt

As noted in the Alliance Bernstein Letter, the Proposed Rules provide a broad exemption from the prohibitions against proprietary trading with respect to the debt of the U.S. government and its agencies, as well as debt issued by certain government sponsored entities and state and municipal governments (collectively, "Government Securities"). We understand that this exemption is contemplated in the statutory text of the Dodd-Frank Act. However, we believe that the Proposed Rules and the market making exception are too narrow with respect to other types of fixed income securities and may cause many financial intermediaries to cease or significantly curtail market making with respect to non-Government Securities for the perceived safety and lower regulatory risk associated with Government Securities. In addition to the liquidity impact caused by market participants leaving or curtailing market making activities in non-Government fixed Securities, we believe that leaving banking entities largely with Government Securities on their balance sheet could lead to a future financial crisis not dissimilar to that which we are observing in Europe today if market participants perceive Government Securities held by banking entities as a greater credit risk than they are considered to be today. In this regard, a more broadly crafted exception for market making in the Proposed Rules will help mitigate this risk, assist with overall liquidity within the broader fixed income market place and support the primary purpose of the Volcker Rule to protect the safety and soundness of insured depository institutions and the financial stability of the United States.

We understand the significant difficulty facing the Agencies in implementing the Volcker Rule. However, we believe that the market-making exception in the Volcker Rule creates significant



liquidity risks for market participants and the general public as a whole and potentially undermines safety, soundness and stability of the U.S. financial system (which is directly counter to the purpose of the Volcker Rule). We are currently seeing liquidity strains in the marketplace, and we believe that the Proposed Rules are already exacerbating these strains. Given the complexity of the Volcker Rule and that its implementation will have a broad impact across the financial services industry and economy as a whole, we believe it is critical that the Agencies implement a carefully crafted proposal that is narrowly tailored to meet the overarching purpose of the Volcker Rule while ensuring the proper functioning of the financial markets. In this regard, we believe the Proposed Rules fail; the Agencies should re-propose rules that are more narrowly tailored to satisfy the overall purpose of the Volcker Rule and clearly authorize banking entities to use the full two-year conformance period contemplated in Section 619 of the Dodd-Frank Act in order to provide sufficient time for banking entities to implement - in a thoughtful manner - the final rules, when issued.

We thank you for consideration of our comments and our concerns noted above. Should you have any questions regarding our letter, please contact our in-house counsel, Paul B. Goucher, either by mail at Columbia Management, 100 Park Avenue, New York, NY 10017 or via telephone at (212) 850-1864.

Respectfully submitted,

William F. Truscott
Chairman