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Public Comments on Prohibitions and Restrictions on Proprietary Trading and Certain Interests In, and Relationships with, Hedge Funds and Private Equity Funds:=====

Title: Prohibitions and Restrictions on Proprietary Trading and Certain Interests In, and Relationships with, Hedge Funds and Private Equity Funds

FR Document Number: 2011-27184

Legacy Document ID:

RIN: 3064-AD85

Publish Date: 11/7/2011 12:00:00 AM

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The so-called Volcker Rule, which severely restricts proprietary trading by banks and their affiliates, should not be permitted to be watered down by lobbyists in the rule-making process. Arguments that suggest it is not feasible to distinguish proprietary trades from agency trades flies in the face of a significant fact that conveniently goes overlooked, i.e. that every CFO on Wall Street has been able to make just such a distinction for decades. That they can make such a distinction is important, because there are important tax and other consequences to the firm for not making it.

It has been argued that the Volcker Rule will make our financial services industry less competitive with those of foreign countries. Not so. Proprietary trading activities will simply migrate to broker-dealers, hedge funds and other institutions. No doubt, banks will lose a significant source of revenue; but they have demonstrated what happens when banks, critical to the national security of the nation, are turned into hedge funds, engaging in wild and heavy speculation while ignoring the primary missions for which they have been granted charters. Despite what some think, proprietary trading must be understood to mean, as well, buying and holding speculative risk assets, even if the holding period is months or years. Speculation does not mean, simply, day trading, as some suggest. Citigroup's exposures to mortgage-backed CDOs, which were massive, makes this point quite well.

What is clear now is that banks should be banks, however uninteresting that activity is thought to be in the minds of some banking executives. Notwithstanding the creative arguments put forward by lobbyists, and those heavily influenced by them, to the effect that the economic sky will fall if the Volcker Rule is implemented as intended, rulemaking must go forward in a manner that recalls the true concern of Dodd-Frank -- national security.

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