

# State of Connecticut



DENISE L. NAPIER  
TREASURER

April 30, 2012

Hartford

Ms. Jennifer Johnson  
Secretary  
Board of Governors of the Federal Reserve  
20<sup>th</sup> Street and Constitution Avenue  
Washington, DC 20551

Mr. Robert E. Feldman  
Executive Secretary  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

Office of the Comptroller of the Currency  
250 E Street, SW  
Washington DC 20219

Ms. Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Ladies and Gentlemen:

I am pleased to have this opportunity to comment on the proposed rules to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, also known as the "Volcker Rule."

As Treasurer of the State of Connecticut, my office is responsible for the State's issuance of debt obligations and management of its \$19 billion debt portfolio. I also serve as a board member on a number of the State's quasi-public authorities, which are frequent issuers of municipal obligations. It is in the latter capacities that I submit these comments concerning the statutory exemption for proprietary trading in securities of states and their political subdivisions.

As a threshold matter, I support the policy initiative of protecting the safety and soundness of the nation's banking institutions by carefully limiting proprietary trading. The systemic risk posed by proprietary trading in municipal securities (which, I believe, is relatively limited) should be balanced against the systemic benefits -- most importantly liquidity -- offered by proprietary trading in municipal securities by these institutions. I realize the large and complex issues you face in implementing effective protections.

With that said, **I encourage the promulgating authorities to broadly exempt all municipal securities from the application of the rule.**

Municipal securities tend to be more illiquid than other securities, particularly in secondary trading, in part because issues are further divided into separate maturities and in part because the market is strongest for in-state residents. Banking institutions play a critical role in

intermediating trading, both in the primary and secondary markets. I appreciate that the Volcker Rule will also incorporate exemptions for underwriting and market-making activities, which will allow banking institutions to continue to supply some liquidity, but I think these institutions can be of greater assistance if further proprietary trading is allowed in municipal securities.

While there have been some well-publicized problems in the municipal markets recently, these problems are relatively few, discrete, and have not presented a systemic issue for the safety and soundness of banking institutions, particularly compared to that presented in the recent past by mortgage-backed securities. Since the municipal market is relatively stable and has few defaults, a broad exemption for municipal securities is simpler and more efficient.

The exemption for states and their political subdivisions is broad enough to embrace most securities issued by Connecticut issuers. Our statutes, with very few exceptions, expressly provide that our issuing entities are political subdivisions. However, in reviewing the comments submitted by other interested parties in the municipal area, I see that this is not necessarily the case in other states. If a precise distinction is drawn between municipal issuers that are considered under state law as political subdivisions and those that are not, I think confusion will be created for all issuers that will increase costs. Since municipal issuers are more alike than not, regardless of whether they are technically political subdivisions, I do not see the distinction as making a material difference to the safety and soundness of the nation's banking institutions. Further, if an issuer is to be judged as a political subdivision based on a federal definition, rather than by state law, this too will cause confusion.

For these reasons, I would recommend the adoption of uniform language exempting all Municipal securities, perhaps by following the definition contained in Section 3(a)(29) of the Securities Exchange Act of 1934. (I would note however that this definition is somewhat dated, referring as it does to the Internal Revenue Code of 1954, and therefore a definition that reflected currently effective provisions might be more helpful.) It may be sufficient for many issuers that the promulgating authorities simply confirm that the state law would govern. Most states will likely have to clarify their state law to provide that their issuers are political subdivisions, but this would require more effort to achieve the intended result of a broad exemption for municipal securities than a simple broadly stated federal definition.

I note from recent statements that it is increasingly unlikely that rulemaking will be in place by the July 21, 2012 statutory deadline. I would encourage the promulgating authorities to provide guidance before that date that confirms a broad reading of the statutory language regarding the exemption of municipal issuers, in order that there be no disruption in the municipal markets.

I appreciate the opportunity to comment and would be pleased to be of further assistance as you proceed with this important work.

Sincerely



Denise L. Nappier  
State Treasurer