Congress of the United States
Washington, DC 20515

February 17, 2012

Honorable Ben Bernanke
Chairman, Board of Governors
Federal Reserve System
Twentieth and Constitution Avenue, NW
Washington, DC 20551

Honorable Martin Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW
Washington, DC 20429

Honorable Gary Gensler
Chairman
Commodities Futures Trading Commission
Twenty First Street, NW
Washington, DC 20581

Honorable Mary Schapiro
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0100

Honorable John Walsh
Acting Comptroller of the Currency
U.S. Department of Treasury
250 E Street, SW Room 9048
Washington, DC 20219

Dear Chairman Bernanke, Acting Chairman Gruenberg, Chairman Gensler, Chairman Schapiro, Acting Chairman Walsh:

As supporters of the intent of the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are proud to have worked to enact strong financial regulations that will reduce systemic risk and increase transparency in the financial markets. In particular, we support the goals of Section 619 of the law, otherwise known as the "Volcker Rule," which was added to prohibit banks that have access to taxpayer funds from putting these funds at risk for their own benefit.

In order to ensure that banks can't simply shift their proprietary trading operations to a separate entity under its control, Section 619 also contains limitations on investing in or sponsoring hedge funds and private equity funds. Congress made very clear, however, that these restrictions should not impact investment in or sponsorship of venture capital funds. The text of the statute itself refers solely to hedge funds and private equity funds, specifically leaving out venture capital funds. This should be contrasted with Title IV of Dodd Frank, where Congress referred generally to private funds, which included venture capital funds in addition to hedge funds and private equity funds. Congress did not explicitly reference venture capital funds in the same manner it referenced private equity and hedge funds, nor did it refer to private funds generally, because it was not congressional intent for the Volcker Rule restrictions to apply to venture capital funds. This understanding is reflected in a colloquy between Senator Dodd and Senator Boxer that took place as the Senate was debating approval of the Conference Report.

Congress treated venture capital funds differently than hedge funds and private equity funds because of the unique characteristics of their investment model. Venture funds are not highly leveraged, have set fund terms, and are generally invested in private companies. Over the past decade, the total amount of venture capital investment on an annual basis has ranged between $20 billion to $40 billion, or roughly 0.1% of the U.S. GDP. Hedge funds, in contrast, managed roughly $1.5 trillion as of the first quarter of 2010. These characteristics mean that investment in venture capital funds does not pose a danger to the safety and soundness of the banking system or create systemic risk for the larger economy. Consistent with congressional intent, regulators should use the flexibility provided to implement the Volcker Rule with enough flexibility to avoid restricting access to venture funds and other types of illiquid funds.

We appreciate your agencies' leadership on this issue. We look forward to working with you in coordination with other agencies to create a balanced approach that mitigates risk in the markets while ensuring access to capital for U.S. companies and investors.

Sincerely,

Gary C. Peters
Member of Congress

Joseph Crowley
Member of Congress

Jared Polis
Member of Congress

Ron Kind
Member of Congress

Cedric L. Richmond
Member of Congress

James P. Moran
Member of Congress

Adam Smith
Member of Congress

Gwen Moore
Member of Congress

Allyson Schwartz
Member of Congress

Carolyn McCarthy
Member of Congress

William L. Owens
Member of Congress

Jason Altmire
Member of Congress

John Barrow
Member of Congress

Russ Carnahan
Member of Congress

John C. Carney, Jr.
Member of Congress

Ed Perlmutter
Member of Congress

Loretta Sanchez
Member of Congress

Gerald E. Connolly
Member of Congress

Lois Capps
Member of Congress

Adam B. Schiff
Member of Congress

Kurt Schrader
Member of Congress

Jay Inslee
Member of Congress

Rick Larsen
Member of Congress

Karen Bass
Member of Congress

Mike Quigley
Member of Congress

U. S. Senate: July 15, 2010

VOLCKER RULE

Mrs. BOXER. Mr. President, I wish to ask my good friend, the Senator from Connecticut and the chairman of the Banking Committee, to engage in a brief discussion relating to the final Volcker rule and the role of venture capital in creating jobs and growing companies.

I strongly support the Dodd-Frank Wall Street Reform and Consumer Protection Act, including a strong and effective Volcker rule, which is found in section 619 of the legislation.

I know the chairman recognizes, as we all do, the crucial and unique role that venture capital plays in spurring innovation, creating jobs and growing companies. I also know the authors of this bill do not intend the Volcker rule to cut off sources of capital for America's technology startups, particularly in this difficult economy. Section 619 explicitly exempts small business investment companies from the rule, and because these companies often provide venture capital investment, I believe the intent of the rule is not to harm venture capital investment.

Is my understanding correct?

Mr. DODD. Mr. President, I thank my friend, the Senator from California, for her support and for all the work we have done together on this important issue. Her understanding is correct.

The purpose of the Volcker rule is to eliminate excessive risk taking activities by banks and their affiliates while at the same time preserving safe, sound investment activities that serve the public interest. It prohibits proprietary trading and limits bank investment in hedge funds and private equity for that reason. But properly conducted venture capital investment will not cause the harms at which the Volcker rule is directed. In the event that properly conducted venture capital investment is excessively restricted by the provisions of section 619, I would expect the appropriate Federal regulators to exempt it using their authority under section 619(J).