NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

February 13, 2012

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington, D.C. 20551

Mr. Robert Feldman
Executive Secretary
Federal Deposit Insurance Corporation
ATTN: COMMENTS
550 17th Street, NW
Washington, D.C. 20429

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

Ms. Elizabeth Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

RE: Proposed Rule Making

- Board of Governors of the Federal Reserve System, [Docket No. R-1432] (RIN 7100-AD82)
- Federal Deposit Insurance Corporation, (RIN 3064-AD85)
- Office of the Comptroller of the Currency, [Docket No. OCC-2011-14] (RIN 1557-AD44)
- Securities and Exchange Commission, [Release No. 34-65545; File No. S7-41-11]

Dear Ms. Johnson, Mr. Feldman, Ms. Murphy, and To Whom it May Concern at the Office of the Comptroller of the Currency

As the State Treasurer of North Carolina, I serve as Chair of the North Carolina Local Government Commission, a State commission given oversight responsibility for most State and local government bond issues. My comments are directed to the proposed rulemakings referenced above, namely the proposed "Volcker Rule" related to Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and specifically related to questions 120 and 124 in the proposed rule. **I urge each agency above to adopt the definition of "municipal securities" as defined in Section 3(a)(29) of the Securities Exchange Act of 1934** ("the '34 Act").

Your rulemaking efforts are especially appreciated by the N.C. Department of State Treasurer, since they align closely with our strategic goal to "Ensure Transparency, Accountability, and Ethics." Our department recognizes that ensuring public confidence in financial markets, banks and government is necessary in the successful execution of public service.

The proposed rule appropriately seeks to exempt municipal securities from the section related to banking institutions engaging in certain proprietary trading activities in keeping with the statute and Congress' intent. However, concerns have been raised by various commentators that the proposed rule would create an exemption for municipal obligations that is defined too narrowly. Question 124 of the above-referenced releases asks whether the definition used in the 34 Act ("obligations guaranteed as to principal or interest by, a State or any political subdivision thereof, or any agency or instrumentality of a State or any political subdivision thereof, or any municipal corporate instrumentality of one or more states, or any security which is in an industrial development bond") would be helpful in determining the proper scope of the exemption.

My Department believes that this definition would be helpful and agrees to follow the definition regarding the regulation of municipal securities and financial institutions. Municipal debt is issued both by governmental entities themselves (e.g., states, cities, and counties) for their own purposes and also through statutorily defined authorities and agencies who issue for defined, circumscribed, and critical purposes such as water and sewer, electricity, airports, housing, health care and

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WWW.NCTREASURER.COM

education. Both in legislation and in regulations regarding the regulation of municipal securities, the 34 Act definition is used to cover the many structures that states have created to facilitate their financings to the extent they have fallen within structures that Congress has deemed worthy of tax exempt financing under the Internal Revenue Code. I would urge that this definition be the starting place for the implementation of the Volcker Rule in the municipal bond context.

Moreover, adopting the 34 Act definition under the Volcker Rule would pose no additional risk to banks or the banking system. Municipal securities are among the safest assets in the U.S. capital markets. Default rates for municipal securities are among the lowest of all sectors of capital markets, second only to bonds backed directly by the U.S. government. Banks have been active participants in the U.S. municipal bond market for many decades, holding nearly nine percent of the more than $3.7 trillion in municipal obligations outstanding. We are aware of no cases in which municipal securities holdings have caused safety and soundness problems for either individual banks or on a systemic basis.

We believe that the intent of the proposed rule, as well as the Dodd Frank Act itself, is to exclude all municipal securities from being captured under the Volcker Rule. Previous rulemaking by the agencies involved in developing the proposed rules demonstrates a more inclusive definition of municipal securities, mirroring the definition included in the Securities Act of 1934.

Thank you again for the opportunity to comment on this important issue.

Sincerely,

Janet Cowell

Janet Cowell,
Treasurer of North Carolina