DEPARTMENT OF THE TREASURY
Office of the Comptroller of the Currency
12 CFR Part 44
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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
12 CFR Part 248
Docket No. R-1432
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FEDERAL DEPOSIT INSURANCE CORPORATION
12 CFR Part 351
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SECURITIES AND EXCHANGE COMMISSION
17 CFR Part 255
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COMMENT REGARDING PROPOSED RULEMAKING: PROHIBITIONS AND RESTRICTIONS ON PROPRIETARY TRADING AND CERTAIN INTERESTS IN, AND RELATIONSHIPS WITH, HEDGE FUNDS AND PRIVATE EQUITY FUNDS

I am writing to provide comment with regard to the proposed rules under Section 13 of the Dodd-Frank Act (the "Proposed Rules"), and in particular Subpart C, which severely restricts banking entities and their affiliates from investing in "covered funds," including venture capital funds. The organization which I lead is a cooperative of government, foundations and industry that is closely involved in economic development in the State of Michigan, and in particular with the attraction and support of venture capital funds that are actively creating and building new companies in the State of Michigan.

Over the past decade, the State of Michigan and many surrounding states were among the hardest hit economically, resulting in high unemployment and a lower standard of living for many citizens. Many states such as Michigan have sought to increase the amount of technology and innovation companies as a means of increasing employment and creating new industries that can thrive domestically. A history of the last forty years has shown that one of the key drivers for the growth of innovation companies, from Google to Microsoft to many of the new battery and alternative energy companies, has been America's venture capital community. A recent study by Global Insights concludes that over 21% of US GDP now comes from companies with a venture capital legacy, and that these companies add jobs at eight times the rate of the overall economy. For this reason, many regions of the US have focused on increasing the amount of available venture capital as a means of spurring innovation and employment.

Several states have created funding programs in which the state government or an affiliated entity invests in venture capital funds that are actively pursuing opportunities in that state. In addition, Michigan is leading a national trend where citizen corporations support these efforts, pooling funds together to invest in venture capital funds under the condition that those funds become active in the state. This is an important development that has taken decades to achieve: the positive result of governments and corporations investing profitably in a way that is aligned with the economic development goals for the state. This will be key to the growth of innovation economies throughout the country, but particularly in the Midwest, where strong universities are creating innovative technologies, many of which currently fail to create economic growth due to lack of capital necessary to start and grow businesses based on that technology. Increasing venture capital in the region as a result of both government and private investment is extremely important.

This progress is being threatened by the Proposed Rules that would severely restrict investment in venture capital funds. While we understand the rationale for limiting the investment by banking entities in certain types of investment vehicles, the rules appear to have been created in an overly broad manner that goes beyond the stated intent and that threatens economic growth in many parts of the country.

We understand that several other organizations have commented on the overall concern of restricting investment in venture capital by banking entities, essentially lumping venture capital in a broad definition of "covered funds," even though the legislation appears to have been designed to address perceived issues with regard to types of funds other than venture capital funds. While we strong agree with these comments of other organizations regarding the need to exclude venture capital from the definition of "covered funds," we would like to focus our comments here on a different, but significant, issue in the Proposed Rules.

Our concern arises from the broad "banking entity" affiliation rules that may limit investment of non-banking assets held within conglomerate corporations. The vague language of these affiliation rules could be interpreted to not only restrict investments by banks by also by non-banks whose businesses bear no relation to the intent of the "Volcker Rule." For instance, many major industrial corporations have historically created small banking affiliates for various reasons, including customer financing. These banking affiliates are typically insignificant in size relative to the overall size of the parent corporations, and their assets are not commingled with those of the parent corporation. But because there is no materiality or reasonableness exemption to the affiliation rules, where a large corporation has a small banking affiliate, the parent corporation and all of its non-banking affiliates could nonetheless be deemed ineligible to invest in venture capital funds, even from assets wholly unrelated to the banking entity. We believe this to be an unintended consequence of the legislation and proposed rules that does not further the goals of the legislation. We also believe that this expansive definition could cripple the venture capital industry, particularly in areas of the U.S., such the Midwest, that are starved for venture capital as a means of growth and where corporate participation in venture capital funds is a key element.

We believe that the Proposed Rules should be significantly modified to limit applicability of the affiliation rules in the case of conglomerate corporations that have relatively small banking affiliates, such that those corporations and their non-bank affiliates could continue to invest in "covered funds" from non-bank assets. This could be accomplished either through (i) a general exemption for affiliates that are not themselves engaged in banking services, or (ii) through a materiality exemption that would exempt from the restrictions affiliated corporations within a controlled group where less than a stated percentage (for instance 30%) of the controlled group assets are attributable to the banking entity affiliates. We believe that restricting the investment of these corporations outside of their banking affiliates does not serve the goals of the legislation. Further, without a change in these rules, an industry that has played a large role in the growth of the U.S. economy over the past four decades will be significantly harmed and the work being done by economically depressed states to diversify and grow their economies through an increase in venture capital will be severely restricted.

If you have further questions, please feel free to contact me.

Very Truly Yours,

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