MEMORANDUM

TO:	File
FROM:	Division of Trading and Markets
RE:	Meeting with representatives from Credit Suisse
DATE:	December 21, 2011

On December 21, 2011, staff from the Division of Trading and Markets, Division of Investment Management, Division of Corporation Finance, Division of Risk, Strategy, and Financial Innovation, Office of the General Counsel, and counsel to the Chairman met with the following representatives of Credit Suisse – Michael Williams, Robert Jain, Norm Paton, Nicole Arnaboldi, and Roger Machlis.

The purpose of the meeting was to discuss the Volcker Rule proposal. The discussion primarily focused on the market making exemption to the prohibition on proprietary trading as well as certain issues related to the fund side of the Volcker Rule proposal.

Attachment

Comments from Credit Suisse

In the latest incarnation, the draft from November 2011, the Volcker Rule has induced significant uncertainty as to what types of trading activities will or will not be permitted by both domestic US-based banks, as well as foreign-based banks. Fundamental activities important for facilitating risk management processes which are undertaken by broker-dealers such as hedging and market-making are currently being debated across the industry.

This uncertainty and the anticipatory responses by institutions has noticeably reduced liquidity across a number of markets by encouraging market participants to close significant portions of their trading operations or to restructure them in a way that has reduced volumes and liquidity. Reduced liquidity tends to lead to higher and more persistent levels of market volatility, which we have clearly experienced in 2011. Admittedly, there have been many macro shocks to global capital markets in 2011, but a material portion of this elevated volatility can be attributed to the significantly reduced amount of global bank capital dedicated to capital market trading activities. Some regulators presumed that hedge funds or some other unidentified institution would enter the markets to help provide liquidity given the increased bid-ask spreads in the absence of significant global banking participation, but this has clearly not been the case.

There are important structural features of the market place that provide the large global banks with funding advantages and other economy of scale benefits that are not easily replicable by non-bank institutions. As a result, we are left with a market that is exhibiting higher levels of systemic risk as measured by volatility levels (median volatility in 2011 now exceeds the median level in 2008), and correlation levels (have been at higher levels longer across the top S&P500 names than in 2008).

As proposed, we believe the rule's exemption for permitted market making activity exceeds Congressional intent, and overly prescriptive and burdensome compliance requirements could well depress the market making functions of banks and their affiliated asset management alternative fund business. Restrictions on the ability of firms to make markets will likely reduce market liquidity, discourage investment, limit credit availability and increase the cost of capital for companies.

The draft rule could have very far-reaching implications for banks and their clients. The rule covers every bank with a meaningful trading business, regardless of domicile. Complying with the Volcker Rule as proposed would require a major effort by nearly all bank-owned trading businesses worldwide, and could involve potentially profound changes to business activities, pricing to customers and ultimately the structure of the capital market businesses in every market.

The ultimate impact could be substantial, as hedging and risk management practices are re-designed, trading units re-organized, and business models re-tuned. These effects will likely have downstream impacts on cost and capital management, and on the way client services are priced. Market marking services currently provided to investors could be affected, as corporations and institutional investors would likely suffer substantially in their ability to efficiently invest, hedge risks, and obtain liquidity for their existing positions.

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