CENTER FOR CAPITAL MARKETS COMPETITIVENESS

TOM QUAADMAN
VICE PRESIDENT

1615 H STREET, NW
WASHINGTON, DC 20062-2000
(202) 463-5540
tquaadman@uschamber.com

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

Re: Proposed Rules on Incentive-Based Compensation Arrangements Release No. 34–64140; File No. S7-12-11

Dear Ms. Murphy:

The U.S. Chamber of Commerce ("Chamber") is the world's largest business federation representing the interests of more than three million companies of every size, sector, and region. The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy. It is an important priority of the CCMC to advance an effective corporate governance system, as corporate governance is a cornerstone of fundamental business practices and capital formation needed for economic growth and job creation in all sectors of the economy.

Indeed, financial institutions should avoid excessive risk that damages the long-term viability of the firm and potentially the financial system as a whole. However, the Chamber has serious concerns regarding incentive-based compensation proposed rules. As stated in the Chamber's May 31 comment letter filed with the SEC, we believe the one-size-fits-all approach of the proposed rules threatens to impair diversity in the U.S. financial services sector. The American economy depends on a well established, diverse financial system that includes various sources of capital and capital providers.

The CCMC directs your attention to the attached paper entitled "***Sources of Capital and Economic Growth: Interconnected and Diverse Markets Driving U.S. Competitiveness***" which we hereby place in the public comment file. The paper was authored by Anjan V. Thakor, John E. Simon Professor of Finance and Director of the PhD Program, Washington University, St. Louis, MO, and European Corporate Governance Institute. Providing a broad overview of the U.S. financial system, this paper describes the variety of financing sources available to both individual consumers and businesses, and the considerations that lead a consumer or a business to choose a specific financing source. It then discusses how this diversity of financing sources provides benefits to the economy.

A central theme of this paper is that our modern economy requires a rich diversity of financing sources to provide businesses of all sizes and industries with financing that suits their individual needs. The paper notes:

> "A rich diversity of financing sources is provided by the U.S. financial system. This diversity helps U.S. consumers and businesses to better manage their risks and lowers their cost of capital. Diversity enables consumers and businesses to effectively match their financing needs to the financing sources, with each financing source providing a different set of services. Since the needs of those seeking financing differ, it is beneficial to have specialized financiers catering to different needs. The result is better risk management and higher investment in the economy, leading to an increase in GDP and employment."

The SEC's proposed rules on incentive-based compensation run the risk of damaging the financial diversity that goes hand-in-hand with robust economic growth and increased employment. Specifically, the proposed rules are based on the *Guidance on Sound Incentive Compensation Policies*, guidance which was intended to apply to banks, not broker-dealers and advisors to mutual funds, private equity funds, hedge funds, venture capital funds, and other diverse capital providers that would be swept under these rules. There are significant differences in the business models of banks, on the one hand, and the above-mentioned institutions, on the other (not to mention the significant differences that exist within each category of institution), which allow each of these categories of capital providers to meet the diverse needs of businesses of all sorts.

Given these differences, it makes sense that compensation structures should also be diverse. However, the proposed rules seek to impose a one-size-fits-all approach to regulating compensation, which will inevitably lead to homogeneity of financial services provided, which will, in turn, negatively affect businesses' ability to access suitable sources of capital. The CCMC respectfully requests that the SEC consider these consequences as it weighs the final form the proposed rules will take.

The CCMC would once again like to thank the SEC for the opportunity to comment and meet on the proposed rules. Without question, financial institutions should avoid excesses that imperil the long-term viability of the firm. However, the CCMC has serious concerns regarding the one-size-fits-all approach of the proposed rules, as well as their impact upon capital formation and market efficiency. These rules will not only impact financial institutions, but also the various forms of financing they provide to businesses of all industries and all sizes.

Sincerely,

Tom Quaadman

Attachment.