

February 9, 2012

**BY ELECTRONIC MAIL**

Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551  
Docket No. R-1432 and RIN 7100 AD 82  
[regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

Mr. Robert E. Feldman  
Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 57<sup>th</sup> Street, NW  
Washington, DC 20429  
RIN: 3064-AD85  
[Comments@fdic.gov](mailto:Comments@fdic.gov)

Office of the Comptroller of the Currency  
250 E Street, SW  
Washington, DC 20219  
Docket No. OCC-2011-0014  
[regs.comments@occ.treas.gov](mailto:regs.comments@occ.treas.gov)

Ms. Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100F  
File #S7-41-11  
[rule-comments@sec.gov](mailto:rule-comments@sec.gov)

**Re: The Proposed Volcker Rule and the Markets for Canadian Government Securities**

Ladies and Gentlemen:

Québec appreciates the opportunity to comment on the proposed rule under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "**Dodd-Frank Act**") to implement Section 13 of the Bank Holding Company Act of 1956 (the "**BHC Act**"), referred to as the "Volcker Rule".

Québec, and certain of its governmental entities (agents of the State) whose debt securities are guaranteed by Québec (including Financement-Québec and Hydro-Québec), regularly issue investment-grade debt securities traded in the global capital markets, including in the United States.

As stated in the commentary accompanying the proposed rule, a key objective of the Dodd-Frank legislation enacting the Volcker Rule is to restrict proprietary trading by banking organizations, while continuing to permit the banking organizations to conduct underwriting, market-making and other client-facilitation activities. We submit that the rule as proposed goes beyond what is needed to implement the new Section 13 of the BHC Act. The reach of the draft rule is too wide and the exemptions too narrow. In particular, there are widely reported concerns, including on the part of investors and issuers – which we share – that the provisions

implementing the statutory exemptions for market-making<sup>1</sup> and hedging<sup>2</sup> activities are substantially more limited than necessary or required by the statute, and that market liquidity may be substantially and adversely affected as a result when these rules come into effect. For the reasons given below, we believe that many transactions conducted by Canadian and Québec-based banking institutions in securities of Canadian and Québec issuers will not qualify for one or the other exemptions. We believe that the rule as proposed may thus result in banking organizations whose head offices are located outside the United States curtailing their dealing activities in non-US governmental debt securities, to the detriment of the markets in such instruments both within and outside Canada and Québec.

In particular, Québec is concerned with the narrow scope given to the exemptions relating to trading outside the United States<sup>3</sup> and the exclusion of all foreign securities from the benefit of the exemption for permitted trading in governmental obligations.<sup>4</sup>

With respect to the first exemption, trading solely outside of the United States, we note that Canadian banking organizations conduct the largest volume of trading in Canadian governmental debt securities (including the debt of provinces of Canada and agencies and instrumentalities of the federal Canadian and provincial governments). We understand that most such Canadian banks have and use the U.S. subsidiaries and affiliates to carry out at least some part of transactions in support of their market-making activities in Canada, and as a result such transactions would likely not meet the conditions required to qualify for the exemption.<sup>5</sup>

With respect to the second exemption, the exemption for U.S. government obligations, we are concerned by what we see as an advantage given to the securities of US governmental and government-sponsored entities over securities of similar entities in Canada with respect to access to capital markets. This may, per se, constitute a violation of the North America Free Trade Agreement.

In answer to Question 122 in the proposing release, we urge you to consider expanding the exemption to include or prescribed debt securities of any foreign government or political subdivision thereof or their agencies (at least those agencies that would be recognized as Schedule B issuers under The Securities Act of 1933).

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<sup>1</sup> Section .4 of the proposed rule.

<sup>2</sup> Section .5 of the proposed rule.

<sup>3</sup> Section .6(d) of the proposed rule, implementing section 13(d)(1)(H) of the BHC Act

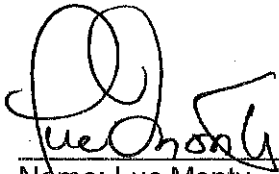
<sup>4</sup> Section .6(a) of the proposed rule, implementing section 13(d)(1)(A) of the BHC Act.

<sup>5</sup> Section .6(d)(3) provides for four conditions, all of which must be met in order for a trade to be considered to have occurred solely outside of the United States: (i) the transaction is conducted by a banking entity that is not organized under the laws of the United States or of one or more States; (ii) no party to the transaction is a resident of the United States; (iii) no personnel of the banking entity that is directly involved in the transaction is physically located in the United States; (iv) the transaction is executed wholly outside the United States.

Foreign governmental securities could qualify on the basis of high credit ratings given by a recognized rating agency or else a list of qualified issuers could be maintained by the regulatory agencies.

Québec is concerned that the proposed rule as presently drafted will have adverse effects on liquidity and the pricing for its debt securities and its government sponsored entities' debt securities. At the same time, restricting the availability of high quality investment-grade securities such as those issued by Québec or its agencies will not, in our submission, advance the goal of promoting and protecting the safety and soundness of banking entities and the financial stability of the United States. We respectfully submit that those goals will be better achieved by expanding the exemptions and thus narrowing the application and scope of Section 13 of the BHC Act so that trading in securities of non-U.S. governmental issuers by non-U.S. banking institutions is affected as little as possible.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Luc Monty', written over a horizontal line.

Name: Luc Monty

Title: Deputy Minister of Finance