



February 13<sup>th</sup>, 2012

*By electronic submission*

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Office of the Comptroller of Currency  
250 E Street, S.W., Mail Stop 2-3  
Washington, D.C. 20219  
Docket ID OCC-2011-14

Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090  
File Number S7-41-11

Board of Governors of the Federal Reserve  
System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551  
Docket No. R-1432 & RIN 7100 AD82

Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, D.C. 20581

Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20429  
RIN 3064-AD85

**Re: Restrictions on Proprietary Trading and Certain Interests In, and Relationships With, Hedge Funds and Private Equity Funds**

Dear Ladies and Gentlemen:

Lloyds Banking Group is pleased to provide comments on the joint notices of proposed rulemaking to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, more commonly known as the 'Volcker Rule'.

Lloyds Banking Group ('the Group') is a UK headquartered retail and commercial bank. The Group has over 30 million customers and is the UK's leading provider of current accounts, savings, personal loans, credit cards and mortgages. Whilst we undertake the majority of our business in the UK, we also operate in a number of other countries including the United States of America.

The Group fully endorses the detailed submissions on the proposed rules which have been made by the International Institute of Bankers (IIB). We would like to emphasise the following points where we have specific concerns regarding the Agencies' proposals for implementation:

- The current drafting interprets 'solely outside the US' very broadly, bringing within scope a range of transaction types where the risk can in no way be said to reside or have an impact within the US. We are concerned about what impact this will have on liquidity of global markets.
- The proposed approach to proprietary trading is overly restrictive on the normal, socially and economically necessary activities of banks, capturing activities such as stabilisation (which is widely recognised as a legitimate part of bond issuance) and market making.

- As an active market maker for UK Government securities, we are concerned about the impact on sovereign bond liquidity where the exemptions to the restrictions only recognise US Government securities, and require an extensive and costly compliance program in order to be able to take advantage of the market making exemption in order to trade in the Group's home country government securities.
- The proposals on hedge fund and private equity investment are overly expansive, even extending to certain vehicle structures which have been endorsed by the UK Government to foster and support economic growth.
- We are also concerned about the practicality of the so-called Super 23A rule which does not respect the structuring of banks' engagement with funds in jurisdictions outside the US.
- Further, we are unsure of the rationale of Super 23A precluding banks from funding wholly-owned subsidiaries which are undertaking activities which, within the scope of the rules, the bank could undertake itself. This situation fails to appreciate the differences in legal structuring which are commonplace in non-US jurisdictions.
- Due to the complexity of the proposed rules, the scale of the predicted compliance monitoring program is likely to be large. The nature of the rules is such that a compliance program will be required whether or not a firm is engaging in Volcker-scope activities, i.e., firms will need to develop what could be termed a 'negative compliance' program to ensure that they do not unintentionally stray within scope of the Volcker Rule.
- The timescales for implementation of a compliance program are extremely challenging given the need for clarity on final rules.

In closing, we urge the US Agencies to revise the proposals with consideration of the wider impact on global markets.

The Group would be very happy to discuss any of these points further with representatives of any of the Agencies.

Yours faithfully,

*Jonathan Gray*

Jonathan Gray  
Regulatory Developments Director