January 31, 2012

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Board of Governors of the Federal Reserve System  
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Mr. Robert E. Feldman  
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Ms. Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
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Dear Ladies and Gentlemen:

Re: Restrictions on Proprietary Trading – Exemption for Proprietary Trading in the Obligations of Foreign Governments

The Province of Ontario, a Canadian provincial government borrower, appreciates the opportunity to comment on the proposed Volcker Rule issued jointly by the U.S. Federal Reserve Board, Office of the Controller of the Currency, FDIC and SEC (the “Agencies”).

Ontario is supportive of financial sector reforms which aim to reduce risks and enhance the safety and soundness of the U.S. financial system. Ontario applauds the tremendous amount of work being done by the Agencies to avoid a repeat of the 2008-2009 financial crisis. However, Ontario is very concerned about the potential impact of the Volcker Rule on its domestic and U.S. borrowing needs and the constraining effect the proposed Rule may have on the businesses of banks in providing liquidity and capital for governments and corporations in Canada.

Background

As Canada’s largest and most active provincial government borrower, Ontario has a long-term public borrowing requirement of $35 billion for fiscal 2011-12 and $37.2 billion for fiscal 2012-13. In the past two weeks, Ontario borrowed $2.6 billion dollars in the domestic bond market. The Volcker Rule, in its current form,
will make it more difficult and expensive for the Government of Canada and for
Canadian provinces to borrow money at a time when greater access to capital is
needed to fund deficits and refinance existing debt.

Ontario is a frequent issuer in the U.S. market. Specifically, Ontario maintains a
U.S. Commercial Paper Program for short-term funding needs, a U.S. Medium-
Term Note Program and issues Global Bonds to U.S. and international investors
for long-term funding needs. Year-to-date, approximately U.S. $2.6 billion of
Ontario’s Global Bonds sold in 2011-12 were purchased by U.S. investors.

**Ontario’s Concerns**

Under the proposed Volcker Rule, Canadian banks with branches or affiliates in
the U.S. may be prevented from purchasing Canadian federal and provincial
government bonds for their own account, thereby reducing Ontario’s access to
capital. Also, the restrictions on proprietary trading will negatively affect the
liquidity for Canadian federal and provincial government bonds in the secondary
market, and increase costs for Ontario, banking entities and for investors who
buy Ontario’s bonds.

Unimpeded access to capital markets is critical to Ontario as a government
borrower because of its reliance on both domestic and U.S capital markets’
participants as a source of funding and liquidity. Ontario is also concerned about
the possible extra-territorial reach of the proposed Rule.

The present draft of the Volcker Rule contains an exemption for U.S. Treasury
and municipal bonds which has not been extended to other foreign government
obligations. This has implications for Canadian banks operating in the U.S. or
with U.S. affiliates who will be limited in terms of their ability to buy and trade
Ontario’s bonds.

A significant percentage of the banks with which Ontario conducts business in
the U.S. are affiliates of Canadian banks or banks whose parent is located
outside of the U.S. These banks rely on continued access to foreign government
bonds to optimize their portfolios, effectively manage their balance sheets and
play a crucial role in Canadian government bond market-making domestically
and abroad. It is important to Ontario that these banks not be adversely affected
by the Volcker Rule so as not to limit Ontario’s ability to sell bonds or increase
Ontario’s borrowing costs.

**Conclusion: Exemption for Foreign Government Bonds**

In order to avoid causing any disruptions to Ontario’s borrowing activities, Ontario
strongly believes that the Agencies should adopt an exemption for Canadian
government obligations and their political subdivisions under the Volcker Rule.
This exemption should apply to short-term and long-term government debt and cover both U.S. and non-U.S. banking entities on a consistent basis.

The Canadian federal and provincial government fixed income market is not traditionally considered to be a high-risk market and provides a mechanism for long-term funding of public expenditures and debt financing.

Given the prudent approach of Canadian federal and provincial governments in managing their finances and Canada’s global reputation as a country with a strong banking sector, Ontario does not consider that an exemption for Government of Canada and Canadian provincial debt would jeopardize the soundness of U.S. banking entities or the financial stability of the U.S. Such an exemption would ensure Ontario’s ability to successfully complete its annual borrowing requirements and the continued efficiency of capital markets.

Yours truly,

Gadi Mayman
Chief Executive Officer
Ontario Financing Authority