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Occupy the SEC Submits to Financial Regulators in Opposition to Interim Final Rule Exempting Risky TruPS CDOs from the Volcker Rule

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Occupy the SEC (“OSEC”) has submitted a comment letter to five federal agencies in opposition to an Interim Final Rule (“IFR”) issued by those regulators. The IFR crafts a novel exemption in the final Volcker Rule regulations for an esoteric banking product, TruPS-backed CDOs.

TruPS CDOs are hybrid securities that package commercial real estate exposures that were predominantly underwritten by small regional banks prior to the economic crisis. Other banks largely purchase these CDOs, engendering interconnectivities that undermine the financial system as a whole.

These CDOs are particularly risky products that researchers at the Federal Reserve Bank of Philadelphia have singled out as being, across the board, “likely to perform poorly.”¹ The Fed’s own experts “estimate that large numbers of the subordinated bonds and some senior bonds will be either fully or partially written down, even if no further defaults occur going forward.”²

The IFR creates a Volcker Rule exemption for CDOs that are primarily backed by qualifying TruP securities. This exemption weakens the Volcker Rule and invite further appeals from the industry for exemptions to more and more asset classes, like CLOs.

In sum, OSEC urges the Agencies to move on to other pressing matters relating to much-needed financial reform, and to vigorously implement the Volcker Rule, as originally intended by Congress, so that the economy might actually realize the intended long-term benefits of the rule. The five federal agencies that issued the IFR are the Federal Reserve, Comptroller of the Currency, Securities and Exchange Commission, Commodity Futures Trading Commission, and the Federal Deposit Insurance Corporation.

Occupy the SEC is a group of concerned citizens, activists, and financial professionals that works to ensure that financial regulators protect the interests of the public, not Wall Street. For further information, visit http://occupythesec.org or email info@occupythesec.org.

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² Id. (emphasis added).