FOR IMMEDIATE RELEASE:

Occupy the SEC Submits Letters to House and Senate in Opposition to Companion Bills Aimed at Exempting Risky TruPS CDOs from the Volcker Rule


Occupy the SEC (“OSEC”) has submitted letters to both the House and Senate about the dangers of the proposed Fairness for Community Job Creators Act, which would exempt TruPS-backed CDOs from the Volcker Rule.

TruPS CDOs are securitized debts that use trust preferred securities as collateral. Trust preferred securities are hybrid instruments that have been issued primarily by small, unrated banks that themselves have vast exposures to localized commercial real estate loans. Other banks largely purchase TruPS 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 These 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 Congressional bills (S. 1907 and H.R. 3819) would create a Volcker Rule exemption for CDOs that are predominantly backed by TruP securities. Such an exemption would weaken the Volcker Rule and invite further appeals from the industry for exemptions to more and more asset classes, like CLOs.

In sum, OSEC urges members of the House and Senate to move on to other pressing matters relating to much-needed financial reform, and allow the SEC, the CFTC and the banking agencies 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.

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).