

Statement by FDIC Chairman Jelena McWilliams on the Final Rule: Revisions to Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds

Last Updated: June 25, 2020

Section 619 of the Dodd-Frank Act – commonly referred to as the Volcker Rule – generally prohibits large banking entities from engaging in impermissible proprietary trading and limits their ability to sponsor or own hedge funds or private equity funds. While the intent of this statute is straightforward, it has been one of the most challenging post-financial crisis rules for both regulators and banking entities to implement. The rule's proprietary trading restrictions were inefficient, due in part to the complex process for determining whether an activity was prohibited or permissible, and the "covered fund" provisions were overly restrictive, as I will discuss momentarily.

Last year, the five agencies responsible for the Volcker Rule finalized changes to improve the efficiency of the proprietary trading restrictions. Under the new rule, proprietary trading remains impermissible, but banking entities now have greater clarity regarding the activities that are prohibited, which should improve both compliance and supervision.

Earlier this year, the agencies issued a proposal to revise the restrictions on fund investments in a way that addresses over-breadth while remaining faithful to the statute. We undertook this process out of recognition that, as originally written and implemented, the regulations placed restrictions on several investment funds that the Volcker Rule was never intended to cover. After receiving many helpful comments, today we consider a final rule to implement these revisions.

To facilitate capital formation, the rule would enable banking entities to provide credit through fund investments that would increase the availability of capital for businesses across the country. For example, banking entities would be permitted to invest in qualifying venture capital funds and credit funds, subject to important safeguards. In addition, the rule would improve several existing exclusions from the covered fund definition to provide clarity and simplify compliance.

I support this rule, and I would like to thank the staff for their tremendous work to complete this effort, especially through these challenging times. With over 30 interagency issuances to implement the Volcker Rule – including proposals, final rules, and FAQs – I believe we now have a more efficient framework. This result would not be possible without the tireless work and continued diligence of the FDIC staff. I greatly appreciate your work on this important rule.