

**Statement by
Martin J. Gruenberg,
Chairman, FDIC
on the
Volcker Rule
December 10, 2013**

The FDIC Board today is acting on the final rule to implement Section 619 of the Dodd-Frank Act, the so-called Volcker Rule. The purpose of the Volcker Rule is to limit the type and amount of speculative risk that can be undertaken by entities that are supported by the public safety net. In order to achieve that goal, the provision places prohibitions and restrictions on the ability of bank holding companies, insured banks, and their subsidiaries and affiliates to engage in proprietary trading or investing in, or having relationships with, hedge funds and private equity funds.

After careful consideration of the many comments received on the proposed rule, the five agencies responsible for implementing the rule worked together to develop a final rule that seeks to balance the prudential restrictions of the Volcker Rule with preserving permissible market making and hedging activities.

The final rule more clearly defines the types of trading activities that are exempt from the ban on proprietary trading. Perhaps the most challenging and complex of these exemptions has been the exemption for market making activities. Under the final rule, the market making exemption has been updated to reduce operational complexity and uncertainty for banking entities and, at the same time, to increase management accountability for ensuring that the requirements of the exemption are met at all times.

With respect to the risk-mitigating hedging exemption, the rule would prohibit so-called “macro-hedging” that has caused large speculative losses at institutions in the past. The final rule is designed to allow cost-effective, risk-reducing hedging while preventing banking entities from entering into speculative transactions under the guise of hedging.

The final rule also clarifies the definition of covered funds and makes clear the prohibition on banking entities’ relationships with high-risk securitizations structures such as collateralized debt obligations and structured investment vehicles.

The heart of the final rule remains the compliance framework. The final rule requires boards of directors, CEOs and other senior management at large firms to approve their compliance framework and review its effectiveness on an on-going basis.

In the past, a lack of robust recordkeeping and reporting requirements made it difficult for regulators to examine large banking organizations and to effectively enforce regulations. Importantly, the same lack of recordkeeping and reporting has created significant governance issues for institutions. The final rule contains significant

documentation and reporting requirements for large banks that are designed to help regulators examine particularly complex activities and supervise compliance with the Volcker Rule. Importantly, they also help bank management monitor and control these complex activities.

While the Volcker Rule applies to all banking entities regardless of size, the types of activities the Volcker Rule was intended to prohibit generally occur at larger, more complex banking entities. Thus, compliance and recordkeeping requirements in the final rule vary based on size and the degree of involvement in these activities.

The final rule imposes no compliance burden on banking entities that do not engage in activities that are covered by the Volcker Rule. As such, most community banks will find that they will not have to make changes to their policies and procedures and will have no new reporting requirements, provided that they do not engage in market making or covered funds activities. However, there are some smaller banking entities that engage in modest amounts of market making and covered fund activities, such as fund sponsorship. To reduce burden for these firms, the final rule provides for a simplified compliance program for banking entities with total consolidated assets of \$10 billion or less that engage in modest amounts of covered activities. Again, even this simplified compliance program would not be necessary for banks that do not engage in activities covered by the Volcker Rule. This morning we have distributed a summary of the applicability of the final rule for community banks.

In conclusion, I believe this final rule achieves the statutory requirement of prohibiting speculative trading and fund activities supported by the public safety net. It preserves important, legitimate market making and hedging activities. It requires the establishment of a compliance framework designed to achieve enforceability and accountability. And, it minimizes the burden placed on community banks that generally do not engage in the activities covered by the final rule.

Finally, I would like to thank FDIC staff, as well as staff from the OCC, Federal Reserve, SEC and CFTC, for all of their hard work in developing this rule.

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