Statement of
FDIC Vice Chairman
Thomas M. Hoenig
on the
Volcker Rule
December 10, 2013

I support adoption of the Volcker Rule.

The Volcker Rule is designed to end speculative trading activities by insured depository institutions that operate under the public safety net. The Rule will mitigate the moral hazard and misaligned incentives that accompany wide access to the safety net.

It has been suggested that proprietary trading is not conducted using insured deposits but with a firm's own funds. However, experience shows that where a firm has access to the safety net, the public's money often serves as the backstop to such activities. The Volcker Rule will reduce this exposure by placing prohibitions or limitations on permissible proprietary trading activities by banking firms that are under the safety net.

The Volcker Rule is often described, accurately, as being highly complex. However, it is complex because SIFIs are highly complex, engage in a broad range of complex trading activities, and also, because of the number of exceptions to the Rule that the largest banks have been granted regarding these trading activities.

SIFIs, for example, can continue to engage in market making and related trading activities, which as we have learned from recent experience can be too easily gamed. All such activities should be conducted away from the safety net in firms that do not engage in commercial banking. These firms would be allowed to succeed or fail in an open market and not have the advantages of the safety net and its subsidy for speculative trading. As a result, the Rule also could be made simpler and greater assurance given the public that it does not backstop speculative activity. Short of that, the Volcker Rule as proposed is a necessary step in ensuring that the current financial industry structure is less vulnerable.

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