Statement of Martin J. Gruenberg
Chairman, Federal Deposit Insurance Corporation

Notice of Proposed Rulemaking: Proposed Revisions to Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds

May 31, 2018

The Volcker Rule is one of the most prominent provisions of the Dodd-Frank Act. Its purpose is to prohibit risky proprietary trading from benefitting from the public safety net.

When the regulation implementing the current Volcker Rule was finalized in 2013, the presentation to the FDIC Board noted that the agencies would "continue to revisit and revise the rule as appropriate, in a manner designed to ensure that the final rule faithfully implements the requirements and purposes of the statute in a manner that allows for effective supervision and enforcement."

To that end, the FDIC worked with the other agencies participating in this rulemaking to explore modifications to the regulation intended to provide clarity to the requirements of the rule, to simplify compliance, and to improve supervision and implementation, but only within certain parameters under which the core principles of the Volcker Rule would be preserved.

These parameters include:

- the fundamental definition of proprietary trading is unchanged; that is, that banking entities remain prohibited from trading financial instruments in order to profit from short-term price movements unless the trading activity meets strict statutory exceptions such as underwriting, market making and risk mitigating hedging. Any changes to the Volcker Rule with respect to proprietary trading should only clarify the agencies' intent as articulated in the 2013 final rule.

- the definition of “covered funds” remains robust to continue to capture private equity and hedge funds.
- the prohibition on high-risk trading strategies and high-risk assets remains intact; for example, the agencies retain the authority to determine that any transaction or activity is prohibited (even if it would otherwise be permissible underwriting, market making, or risk mitigating hedging) if the transaction or activity would (1) involve or result in a material conflict of interest between the banking entity and its clients, customers, or counterparties, (2) result in a material exposure by the banking entity to a high-risk asset or a high-risk trading strategy; or (3) pose a threat to the safety and soundness of the banking entity or to the financial stability of the United States.
- the supervisory framework remains robust to ensure that the agencies can effectively examine for compliance with the Volcker Rule.
- robust metrics reporting requirements remain in place.
- meaningful CEO attestation requirements are retained.

The central goal, from my standpoint, is to preserve the core principles of the Volcker Rule as the agencies seek to provide greater clarity and simplicity to facilitate compliance. On that basis, I am prepared to support publication of the proposed rule in the Federal Register for public notice and comment.

I would like to conclude with a word of thanks to the staffs of all the agencies who worked diligently on this proposed rule, and in particular I would like to thank the staff of the FDIC who worked with great skill and dedication.