Americans for Financial Reform Education Fund

Regulators Deal A Fatal Blow to the Volcker Rule

Washington, DC – Today's Volcker Rule changes fatally weaken the prohibition on proprietary trading at taxpayer-insured banking institutions. As FDIC Director Gruenberg documented in his opposition to the rule, today's changes would end the application of the Volcker Rule proprietary trading prohibition to almost half of the assets at insured banking institutions to which it currently applies, and would exclude a quarter of currently covered assets at bank holding companies.

"This rule would free up hundreds of billions of dollars in securities and derivatives for proprietary trading purposes, completely outside of Volcker Rule coverage and in fact with an explicit exemption from proprietary trading restrictions," said Marcus Stanley, policy director at Americans for Financial Reform. "By simply designating positions as not explicitly held for trading, banks could easily evade the Volcker Rule. These changes spell the end of meaningful constraints on proprietary trading at taxpayer supported banks, and another step in dismantling financial stability safeguards."

As AFR has previously documented in our white paper on the Volcker Rule, even prior to these changes the Volcker Rule already contained dozens of exemptions and exclusions which facilitated bank trading activity, and bank trading revenues did not significantly decline after the Volcker Rule was implemented. But in theory the coverage of the Volcker Rule was broad enough to permit regulators to act if they wished to do so. After today, they will no longer have that authority.

Today's rule also indicates that regulators will issue a future proposal narrowing the scope of the covered funds provision of the Volcker Rule, which will likely be aimed at liberalizing rules on bank investments in hedge and private equity funds and ending any restrictions on bank involvement in securitizations. This would complete the process of neutering the rule.

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