Public Statement

Statement at Open Meeting on Inter-Agency Proposal for Amendments to the Volcker Rule

Chairman Jay Clayton

June 5, 2018

Today the Commission will consider proposed amendments to rules adopted under section 13 of the Bank Holding Company Act. The proposed amendments principally relate to prohibitions and restrictions on proprietary trading and certain interests in, and relationships with, hedge funds and private equity funds, commonly known as the "Volcker Rule."

Before I turn to that, however, I want to acknowledge that yesterday the Commission approved a set of important actions. In three related releases, the Commission provided a new, optional "notice and access" method for delivering fund shareholder reports. We also invited investors and others to share their views on improving fund disclosure, and sought feedback on the fees that intermediaries charge for delivering fund reports. These releases, together, are important steps in our ongoing efforts to improve the experience of investors in mutual funds, ETFs and other investment funds by modernizing the design, delivery and content of fund disclosures to investors. Additional information about these releases, including a press release, fact sheet and statement, are available on sec.gov.

I commend Commission staff for their dedication and thoughtful work on those releases. In particular, I would like to thank Dalia Blass, Paul Cellupica, Barry Miller, Michael Kosoff, Jennifer McHugh, Michael Pawluk, Matthew DeLesDernier, John Lee, and Angela Mokodean in the Division of Investment Management, as well as the many talented staff from other Divisions who contributed to these releases. I'd also like to thank Diane Blizzard, formerly the Associate Director of the Division's Rulemaking Office, who left the agency last week after eighteen years of service.

I would also like to thank staff in the Division of Economic and Risk Analysis, and the Office of General Counsel, as well as the Division of Trading and Markets, the Division of Corporation Finance, the Office of Investor Education and Advocacy, the Office of the Investor Advocate, and the Office of Compliance Inspections and Examinations. This was truly a collaborative effort, with coordination across the agency.

Turning back to the agenda for this meeting, I would also like to begin with a thank you. In particular, I want to acknowledge and thank our colleagues at the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the U.S. Commodity Futures Trading Commission for their combined efforts to fulfill the statutory objectives of coordination, consistency, and comparability in this rulemaking. This is a truly collaborative inter-agency endeavor. Each agency has brought its own perspective, experience and expertise to this project, and the proposal before us today reflects a collaborative distillation of which I believe each agency should be proud. I know that our staff listened closely to the views of their regulatory colleagues, and vice versa.

In 2013, the agencies charged with implementing the statute adopted a rule that generally prohibits certain banking entities from engaging in proprietary trading or sponsoring or investing in a hedge fund or a private equity fund.

This rule is intended to curb proprietary trading, protect the provision of essential financial services such as underwriting and market making, and protect the stability of the U.S. financial system.

Since the adoption of the 2013 final rule, banking entities and the agencies charged with implementing the rule have gained experience through its implementation, including through examinations. Based on that experience, and in response to feedback received in the course of administering the rule, we and the other agencies have identified opportunities, consistent with the statute, for improving the rule, including by tailoring its implementation based on the level of a banking entity's trading activity. In short, we recognize that, to effectively implement the Volcker Rule, one size does not fit all and its terms should reflect our collective experience.

Over the course of the last week, the proposal we are considering today has been approved by the Federal Reserve, OCC, FDIC, and CFTC. Just a few days ago, Vice Chairman Quarles and Governor Brainard of the Federal Reserve Board summed up the proposed changes by noting that they are intended to help make the Volcker rule work in a more efficient manner, consistent with the purposes of the statute. Indeed, Vice Chairman Quarles stated that, "[t]his proposal is a good example of the general principle that we should tailor our regulations and supervision to the size and risk profile of individual firms." FDIC Chairman Gruenberg echoed this sentiment, stating that, "[t]he 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." I agree with these comments – among many others made by experienced regulators with varying perspectives – in support of this tailored, interagency rule proposal.

The proposal to amend the 2013 final rule is designed to provide banking entities with greater clarity and certainty about what activities are prohibited, and to improve effective allocation of compliance resources where possible. The proposal seeks to simplify and tailor the 2013 final rule to increase efficiency, streamline compliance with the rule, and allow banking entities to more efficiently provide services to clients, consistent with the requirements and purpose of the statute.

In particular, the proposal aims to reduce compliance obligations for small and mid-size banking entities relative to their trading activity. Tailoring compliance program requirements in this way can help banking entities and the agencies administering the rule better focus their compliance efforts across the market with a focus on those entities with the most trading activity. The proposal would also implement changes to the market making, underwriting, and risk-mitigating hedging exemptions in a manner intended to provide clarity and improve their practical application. In addition, the proposal seeks public input on whether and how the agencies can more effectively tailor the 2013 final rule's definition of the term "covered fund," which is the rule's defined term to address the investments in "hedge funds" and "private equity funds" limited by the statute.

The proposal includes a robust request for comment on all aspects of the proposed revisions. I strongly encourage all interested parties to comment on the many questions posed in the release, and look forward to commenter input about implementing the Volcker Rule in a more efficient way.

Before I turn it over to the staff to provide a detailed discussion about their recommendation, I would like to thank my fellow Commissioners and their counsels for their significant efforts on this proposal. Many of the questions in the proposal are the result of input from our Commissioners.

I also would like to thank the SEC staff for their truly exceptional work on this proposal. Their deep experience in areas such as market making, underwriting, asset management, and investment funds have contributed greatly to this interagency effort. The thoughtful proposal before us reflects countless hours of work, many on late nights and weekends. And, in the continuing spirit of distilling the best of an array of perspectives, experience, and expertise, it reflects extensive inter-Division and Office collaboration at the SEC.

As just one example, I spoke to Pete Driscoll and his colleagues in our Office of Compliance, Inspections, and Examinations last week regarding whether the proposal reflected their experience examining large firms and whether the proposed amendments would make examinations of internal controls more effective. I was comforted to hear the strong "yes" I received on both scores. I know that each member of our rulemaking staff recognizes

that providing for effective compliance, examinations, and enforcement are essential components of good rulemaking. I appreciate your dedication to getting this proposal out, and, importantly, getting it right.

- From the Division of Trading and Markets: Brett Redfearn, Heather Seidel, Carol McGee, Josephine Tao, Andrew Bernstein, Elizabeth Sandoe, Sophia Colas, Samuel Litz, Aaron Washington; David Saltiel, Michelle Danis, Chul Park, and William Yost; Roni Bergoffen, Andrea Orr, David Metzman, and Ajay Sutaria
- From the Division of Investment Management: Dalia Blass, Paul Cellupica, Diane Blizzard, Brian McLaughlin Johnson, Sara Cortes, Aaron Gilbride, Matthew Cook, and Nicholas Cordell
- From the Office of Compliance Inspections and Examinations: Pete Driscoll, John Polise, and Christine Sibille
- From the Division of Economic and Risk Analysis: Chyhe Becker, Jeff Harris, Vanessa Countryman, Narahari Phatak, Diana Knyazeva, Dasha Safonova, and Daniel Bresler
- From the Office of General Counsel: Meridith Mitchell, Lori Price, Robert Teply, Robert Bagnall, and Mykaila DeLesDernier
- From the Division of Corporation Finance: Andrew Schoeffler
- From the Office of the Chief Accountant: Wes Bricker, Rachel Mincin, Andrew Pidgeon, Kevin Vaughn, Sagar Teotia, Giles Cohen, Duc Dang, and Jeff Minton

And now, I will turn it over to Brett Redfearn, the Director of the Division of Trading and Markets, for the staff's presentation of the recommendation.