December 10, 2013

Opening Statement by Governor Daniel K. Tarullo

Thank you, Mr. Chairman.

For a time, I had begun to think that the Volcker Rule was destined to become the *Jarndyce versus Jarndyce* of administrative rulemaking. But, through the persistence of staff at the five regulatory agencies, we have before us a completed rule that is being considered today by all five agencies. Hopefully, by the end of the day we will have uniformity in what will actually be four separate regulations applying the statutory provisions to banks, broker-dealers, commodities brokers, and other affiliates of bank holding companies.

My Dickens allusion may accurately imply that here, even more than in most joint rulemakings, the product of this extended process is not a regulation that would have been written by any one agency, much less by any one principal at any of those agencies. But I think the text before us is an improvement, both normatively and technically, on the proposed rule issued in October 2011. The basic approach is quite consistent with that adopted in the proposed rule, but the many comments we received from a variety of perspectives helped staff make useful changes and clarifications throughout the proposed final rule. Also, of course, the "London Whale" episode allowed staff to test the procedural and substantive requirements of the proposed rule against a real-world example of what should not happen in a banking organization.

Many of us – myself included – had hoped for a final rule substantially more streamlined than the 2011 proposal. I think we need to acknowledge that it has been only modestly simplified. Much of the complexity lies in the part of the rule dealing with covered funds. A good bit of this complexity has proven hard to avoid. The part of the rule dealing with proprietary trading has been simplified somewhat, particularly by reducing the number of metrics that will be used in the reporting and analysis of trading data.

Of course, the fundamental challenge is to distinguish between proprietary trading, on the one hand, and either market-making or hedging, on the other. The difficulty in doing so inheres in the fact that a specific trade may be either permissible or impermissible depending on the context and circumstances within which that trade is made. While the proposal before us articulates standards for making those distinctions, those standards will necessarily be developed further as they are applied. Thus, as the Chairman has noted, implementation will be particularly important in shaping the Volcker Rule going forward. Because the bulk of the activities encompassed by the statute take place in broker-dealers and national banks, for both of which the Federal Reserve is not the primary supervisor, we will have a somewhat lesser role in this implementation process. Still, because we are the primary supervisor for state member banks, foreign broker-dealer subsidiaries of bank holding companies, and state-chartered branches of foreign banking organizations, we will have a role to play.

With that, I turn to Scott for the staff presentation.