



Federal Deposit Insurance Corporation

550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter

FIL-58-2013

December 12, 2013

Volcker Rule

Prohibitions on Proprietary Trading and Certain Relationships with Hedge Funds and Private Equity Funds

Summary: The federal banking agencies, along with the U.S. Securities and Exchange Commission and the Commodity Futures Trading Commission, have issued final rules to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, also known as the “Volcker Rule” (Final Rule). The Volcker Rule generally prohibits any banking entity from engaging in proprietary trading or acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with a hedge fund or private equity fund (covered fund), subject to certain exemptions.

Statement of Applicability to Institutions with Total Assets Under \$1 Billion: This Financial Institution Letter is applicable to all banks regardless of asset size. An addendum is included that describes how the rule would typically apply to smaller, less complex banking entities.

Distribution:

FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:

Board of Directors
Chief Executive Officer
Chief Financial Officer
Chief Risk Officer

Related Topics:

Dodd-Frank Wall Street Reform and Consumer Protection Act
Bank Holding Company Act

Attachments:

[Restrictions on Proprietary Trading and Certain Relationships with Hedge Funds and Private Equity Funds](#)

[Fact Sheet: The Volcker Rule](#)

[The Volcker Rule: Community Bank Applicability](#)

Contact:

Bobby Bean, Associate Director, Capital Markets Branch, at bbean@fdic.gov or (202) 898-6888

Karl Reitz, Chief, Capital Markets Strategies, at kreitz@fdic.gov or (202) 898-6888

Michael Spencer, Senior Policy Analyst, at michspencer@fdic.gov or (202) 898-6888

Note:

FDIC Financial Institution Letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2013/index.html.

To receive FILs electronically, please visit <http://www.fdic.gov/about/subscriptions/fil.html>.

Paper copies may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

Highlights

The Final Rule:

- Prohibits banking entities from engaging in proprietary trading, unless otherwise permitted by the Final Rule.
- Prohibits banking entities from acquiring or retaining any ownership interest in, or sponsoring, a hedge fund or private equity fund, except to the extent permitted by the Final Rule.
- Prohibits banking entities from engaging in a permitted activity if (i) it would involve a material conflict of interest or material exposure to high-risk trading strategies, or (ii) pose a threat to safety and soundness.
- Provides exemptions for certain permitted activities including, but not limited to, trading on behalf of customers, trading in government obligations, market-making activities, risk-mitigating hedging strategies, and organizing and offering a covered fund including limited investments in such funds.
- Provides exclusions from the definition of proprietary trading for certain activities subject to conditions.
- Provides exclusions from the definition of covered fund, including, but not limited to, loan securitizations, wholly owned subsidiaries, bank-owned life insurance, and public welfare investment funds.