Chairman Hensarling, Ranking Member Waters, and members of the Committee, thank you for the opportunity to testify today on the Volcker Rule. As you are aware, on December 10, 2013, the OCC was one of five agencies that adopted a final rule to implement the requirements of section 619 of the Dodd Frank Act, known as the Volcker Rule. Consistent with the statute, the rule prohibits banking entities from engaging in proprietary trading and strictly limits their ability to invest in hedge funds or private equity funds. However, the rule does permit banks to continue engaging in important financial activities, such as market making, underwriting, risk mitigating hedging, and trading in government obligations. The rule is designed to preserve market liquidity and allow banks to continue to provide important services for their clients, while tailoring the compliance requirements to the size of the bank and complexity of its activities.

In developing the final rule, we carefully considered more than 18,000 comments. Commenters raised significant and complex issues, and also provided thoughtful, although sometimes conflicting, recommendations. My written statement describes several of the changes that the agencies made to the final rule in response to those comments. For example, some of the changes were designed to clarify how banks can continue to use hedging activities to reduce specific risks. Other changes were made to narrow the scope of funds covered under the rule.

While the statute applies to banks of all sizes, not all banks perform the activities that present the risks the statute sought to address. Throughout the rulemaking, the OCC worked to minimize the burden the rule would place on community banks. I am pleased that under the final
rule, community banks that trade only in certain government obligations have no compliance obligations whatsoever. Moreover, community banks that engage in low-risk activities will be subject to minimal requirements. On an issue of particular importance to community banks and members of this Committee, we also recently clarified that banks could continue to own Collateralized Debt Obligations backed by Trust Preferred Securities in a way that is consistent with the Collins Amendment to the Dodd-Frank Act.

By contrast to expectations for community banks, the rule will require significant changes at large banks that engage in trading and covered fund activities. Most large institutions have been preparing for these changes since the statute became effective in July 2012, and have been shutting down impermissible proprietary trading operations. Now that the final rule has been released, large banks will need to bring their trading and covered fund activities into compliance during the conformance period, which runs through July 21, 2015. Large banks will be subject to enhanced compliance requirements, which will include detailed policies, procedures and governance processes. The CEOs of every bank subject to these enhanced compliance requirements must provide annual attestations about their compliance programs. In addition, the largest trading banks will begin reporting on seven categories of metrics this summer. At the OCC, we are committed to maintaining a robust program to assess and enforce banks’ compliance with the Volcker Rule. We are developing examination procedures and training to help our examiners assess whether banks are taking appropriate action to bring their trading activities and investments into conformance with the rule.

I am mindful of the need to ensure that the agencies provide consistency in the application of the rule. For this reason, the OCC led the formation of an interagency working group to respond to and collaborate on key supervisory issues that arise under the final rule. I
am pleased to report that the interagency group held its first meeting in late January and will continue to meet on a regular basis to discuss application and enforcement of the rule.

Thank you again for the opportunity to appear before the Committee today. I will be happy to answer questions.