For release at 5:00 p.m. EST

The Federal Reserve Board on Monday announced additional details regarding how banking entities may seek an extension to conform their investments in a narrow class of funds that qualify as "illiquid funds" to the requirements of section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly known as the Volcker Rule.

The Board expects that the illiquid funds of banking entities will generally qualify for extensions, though extensions may not be granted in certain cases—for example, where the banking entity has not demonstrated meaningful progress to conform or divest its illiquid funds, has a deficient compliance program under the Volcker Rule, or where the Board has concerns about evasion.

The Dodd-Frank Act permits the Board, upon an application by a banking entity, to provide up to an additional five years to conform investments in certain legacy illiquid funds where the banking entity had a contractual commitment to invest in the fund as of May 1, 2010. The five-year extension for certain legacy illiquid funds is the last conformance period extension that the Board is authorized to provide banking entities under the statute.

According to the guidelines adopted by the Board, firms seeking an extension should submit information including details about the funds for which an extension is requested, a certification that each fund meets the definition of illiquid fund, a description of the specific efforts made to divest or conform the illiquid funds, and the length of the requested extension and the plan to divest or conform each illiquid fund within the requested extension period.

Section 619 generally prohibits insured depository institutions and any company affiliated with an insured depository institution from engaging in proprietary trading and from acquiring or retaining ownership interests in, sponsoring, or having certain relationships with a hedge fund or private equity fund. These prohibitions are subject to a number of statutory exemptions, restrictions, and definitions.

The rules to implement section 619 were implemented by the Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, and the Commodity Futures Trading Commission in December 2013. Today's action relates only to the period for conforming relationships with funds defined by section 619 as illiquid funds.

The Board consulted with staffs of the other agencies charged with enforcing the requirements of section 619, and the agencies plan to administer their oversight of banking entities under their respective jurisdictions in accordance with the Board's conformance rule and the attached guidance.

For media inquiries, call 202-452-2955.

Attachment (PDF)