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Statement on Volcker Rule Covered Funds Proposal  
and Control Framework Final Rule  
By Vice Chair Randal K. Quarles

I want to thank our staff for their work on these important projects and the staff of the four other agencies responsible for implementing and enforcing the Volcker rule, and I'd like to thank them all for a quite exceptionally high level of professionalism, collegiality, and dedication in these projects.

The objective behind the Volcker covered funds proposal is straightforward: simplifying the Volcker rule in light of our experience with the rule over six years of implementation. This is a goal that is shared among all five agencies and among policymakers at those agencies with many different backgrounds. Since the agencies originally finalized the Volcker rule regulation in December of 2013, each agency has collected and reflected on many lessons learned. In particular, it is inescapable that compliance and enforcement have been difficult and can be simplified for both banking entities and regulators.

The Volcker covered funds proposal has been informed by significant public input. Notably, the Volcker proposal on proprietary trading which we made in 2018 invited comment from the public on how the covered funds provisions could be improved. Many comments have been received in response over the subsequent 18 months, and this proposal takes into account many of those comments.

Broadly, the changes in the proposal can be grouped into three buckets:

- First, improving and clarifying the treatment of foreign funds;

- Second, simplifying and clarifying the operation and compliance requirements of the rule;
- And third, permitting banking entities to engage in additional fund-related activities, which do not present the risks that the Volcker rule was intended to address.

Let me focus quickly on the third bucket of changes. They would allow a banking entity to engage in certain activities indirectly through a fund structure. However, existing law has always allowed banks to engage directly in these activities. So to put it plainly: Today's proposal simply allows banks to engage in already permitted activities, such as venture capital investment, through a fund structure. And to mitigate any risks present with activity through a fund, the proposal does not allow banks to engage in proprietary trading through a fund structure, restricts a banking entity from bailing out the funds it sponsors, limits conflicts of interest between the banking entity and fund, and of course, the activity remains subject to the same strict capital charges even if it is conducted through a fund structure.

The proposal seeks comment on a variety of fronts, ranging from narrow to broad, and I encourage views from all sides to weigh in on how the proposal can be improved, while maintaining the safety and soundness of firms and complying with statutory requirements. We will genuinely listen to those comments and take them into account as we formulate a final rule. I very much look forward to public feedback on the Volcker covered funds proposal.

Turning to "control," the concept of control is a threshold issue for the Board because it determines the perimeter of the Board's supervisory and regulatory authority over depository institution holding companies. Under the Bank Holding Company Act and the Home Owners' Loan Act, the Board is charged with oversight over companies that control a bank or savings association.

The Board's control regime has developed over many decades through an opaque common law process and has become one of the more ad hoc and complicated areas of the Board's regulatory administration. The complexity and relative lack of transparency of the Board's case-by-case approach to control can impose a substantial compliance and uncertainty burden on the public, especially banking organizations and investors. By establishing a broadly applicable and uniform set of rules, the final rule being considered today is intended to enhance the predictability, simplicity, and transparency of the Board's framework for evaluating control.

Many of the control doctrines of the Board and staff have been unwritten or have been written, but not well publicized. Most of the control doctrines of the Board and staff also had never gone through the crucible of a public comment process. I am pleased that these doctrines will now be available to the public with a framework that has been determined after going through the standard notice-and-comment process.