SPENCER BACHUS, AL, CHAIRMAN

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

BARNEY FRANK, MA, RANKING MEMBER

November 29, 2012

The Honorable Ben Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

The Honorable Mary Schapiro
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

The Honorable Martin Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

The Honorable Thomas Curry
Comptroller of the Currency
Office of the Comptroller of the Currency
250 E Street, S.W.
Washington, DC 20219

The Honorable Gary Gensler
Chairman
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Sirs and Madam:

As you know, Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203), popularly known as the "Volcker Rule," prohibits banks from engaging in proprietary trading. Hearings in the Committee on the Financial Services have demonstrated that the Volcker Rule will have significant effects on capital formation and liquidity in the financial system as well as the availability of credit to businesses and consumers and the ability of individuals to save for their retirements and their children's education. Moreover, because no other country has imposed a similar prohibition on proprietary trading, the Volcker Rule may well put U.S. financial institutions at a competitive disadvantage against their foreign counterparts.

Given that the costs that the Volcker Rule will impose on the U.S. financial system will more than likely outweigh any benefits the rule has to offer, it is absolutely essential that you carefully consider how you will implement it and that your agencies be transparent about the process by which you issue the final rule. Unfortunately, you have been less than transparent about how you intend to implement the Volcker Rule, and the resulting confusion has only made it that much more likely that whatever final rule you issue will compound the regulatory uncertainty that continues to plague our economy.

In October 2011 and in January 2012, your agencies released proposed rules pursuant to Section 619, and solicited comments on more than one thousand separate questions. Five months later, in April 2012, amid considerable confusion about how financial institutions would comply with rules that have yet to be finalized and a looming July 2012 deadline, the Federal Reserve

Board directed banking entities to engage in good-faith efforts to try to conform their activities to a yet-to-be-defined rule, with full compliance mandated by July 2014.

The media now report that your agencies may be preparing to issue as many as three different versions of the Volcker Rule. Even if proprietary trading played a role in bringing about the financial crisis and even if banning proprietary trading would make the financial system safer—propositions that are simply not supported by the evidence—the prospect that regulators have been unable to agree on one version of the Volcker Rule is extremely troubling. As we are sure you can appreciate, competing versions of the Volcker Rule will make it all the more difficult for market participants to know what their obligations are and how to comply with them, particularly if they find themselves subject to competing obligations enforced by different regulators. While the Volcker Rule promises little if any benefit, what little benefit it does promise will not be realized if regulators further fragment financial markets and ratchet up the costs of compliance for market participants by issuing multiple versions of the Volcker Rule. Section 619 charged the five regulatory agencies with jointly promulgating one Volcker Rule; it did not grant each one the discretion to issue its own version of the same rule. To comply with the mandate set forth in the Dodd-Frank Act, you must speak with one voice and jointly issue one rule.

As part of your efforts to jointly issue one Volcker Rule rather than several, the agencies should conduct a robust cost-benefit analysis of the Volcker Rule and its effects on investors, borrowers, capital markets, the financial system, and the U.S. economy. Market participants deserve to know whether the Volcker Rule will in fact make the financial system safer and they deserve to know at what cost. Perhaps more important, Congress should have the benefit of that analysis in considering whether Section 619 should be amended or repealed.

Given the time that it will take for you to agree on one version of the Volcker Rule as well as the tremendous uncertainty that market participants face in trying to anticipate what the final rule will look like, we respectfully suggest that the Federal Reserve Board delay the Volcker Rule's effective date until two years after the date on which the final rule is promulgated. Doing so would replicate the two-year conformance period mandated by Section 619, and it would grant institutions the time Congress intended to give them to begin their efforts to comply with this far-reaching, complex rule.

We look forward to your response and your description of how you plan to proceed with this crucial rule that will profoundly affect U.S. financial markets and all those who rely upon them.

Sincerely,

SPENCER BACHUS
Chairman

JEB HENSARLING
Vice Chairman