JEFF MERKLEY
OREGON

COMMITTEES:
APPROPRIATIONS
BUDGET
ENVIRONMENT AND PUBLIC WORKS
FOREIGN RELATIONS

United States Senate

WASHINGTON, DC 20510

September 12, 2019

The Honorable Jerome H. Powell
Chairman
Federal Reserve Board
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

The Honorable Jay Clayton
Chairman
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

The Honorable Jelena McWilliams
Chair
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

The Honorable Heath P. Tarbert
Chairman
Commodity Futures Trading Commission
1155 21st Street, N.W.
Washington, D.C. 20581

The Honorable Joseph M. Otting
Comptroller
Office of the Comptroller of the Currency
400 7th Street, S.W.
Washington, D.C. 20219

Dear Chairman Powell, Chair McWilliams, Comptroller Otting, Chairman Clayton, and Chairman Tarbert:

I am deeply concerned by the Federal Deposit Insurance Corporation (FDIC) vote and Office of the Comptroller of the Currency (OCC) approval on August 20, 2019 to adopt changes to the enforcement of Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, also known as the Volcker Rule. Your agencies have been charged with enforcement of this rule in order to protect taxpayers from profit-driven proprietary trading. The proposed changes to the Volcker Rule approved by the FDIC and OCC are damaging to its core.[1] If finalized, this rulemaking would constitute yet another attempt to undermine a critical provision of Dodd-Frank, at a time of growing concern about the stability of our economy.

As I stated in my May 31, 2019 letter to your agencies, recent actions towards weakening the Volcker Rule have blatantly ignored evidence of certain banks' substantial non-compliance with the rule. Following my letter, I expected agencies to dig deeper and, where appropriate, enforce

[1] Hamilton, Jesse and Benjamin Bain, "Wall Street Nears a Big Win in the Latest Revamp of Volcker Rule." April 25, 2019. Available at: https://www.bloomberg.com/news/articles/2019-04-25/wall-street-nears-a-big-win-in-the-latest-revamp-of-volcker-rule

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the Volcker Rule's relevant provisions. Instead, we are seeing that regulatory agencies are now poised to sanction noncompliance by further watering down what constitutes proprietary trading.

The dangers of proprietary trading are clear. The Federal Reserve Board's own analysis of the Volcker Rule raised serious questions.[2] Banks amassed weekly trading profits of as much as $117 million, weekly losses up to $84 million and weekly exposures as high as $505 million.[3] These findings not only highlight traders raking in windfall profits and suffering outsized losses, but also the frequency and risk with which they may be doing so.[4]

Dodd-Frank is considered one of the most important structural financial reforms to have emerged from the 2008 financial crisis—a reform that the Federal Reserve has stated had "economically large financial stability benefits."[5] The impacts of this must be taken seriously. The Volcker Rule not only sought to undo damage of past abuses of proprietary trading, it also safeguards working families' hard-earned savings from exploitation by financial institutions driven by their bottom line.

I urge leadership of the remaining agencies that have not yet voted to reject this ill-conceived proposal. The need for limits on proprietary trading are as essential as they were during the Great Recession. This is a crucial time for our economy, and we cannot afford another economic crisis fueled by corporate greed. Weakening the Volcker Rule would signal banking regulators' lack of interest in the financial well-being of working American families and the global economy.

As you consider the future of the Volcker Rule, and by extension the welfare of the American people, I stand ready to work with all five agencies to prevent financial institutions from engaging in reckless and speculative practices.

Sincerely,

Jeffrey A. Merkley

Jeffrey A. Merkley
United States Senator

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[2] Falato, Antonio, Diana Iercosan, and Filip Zikes (2019). "Banks as Regulated Traders," Finance and Economics Discussion Series 2019-005. Washington: Board of Governors of the Federal Reserve System. Available at: https://doi.org/10.17016/FEDS.2019.005

[3] Ibid, p. 12.

[4] Nasiripour, Shahien, Sonali Basak, and Steven Arons. "Wild Trading Day at Deutsche Bank Raises Questions on Risk," June 20, 2018. Available at: https://www.bloomberg.com/news/articles/2018-06-20/wild-trading-day-at-deutsche-bank-raises-questions-on-u-s-risk

and Bair, Sheila and Gaurav Vasisht. "Re: Proposed Revisions to Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds (Docket ID OCC-2018-0010; Board Docket No. R-1608; RIN 7100-AF 06; FDIC RIN 3064-AE67; SEC File Number S7-14-18; CFTC RIN 3038-AE72," October 17, 2018. p. 8, 24.

[5] Falato, Antonio, Diana Iercosan, and Filip Zikes (2019). "Banks as Regulated Traders," Finance and Economics Discussion Series 2019-005. Washington: Board of Governors of the Federal Reserve System, page 1. Available at: https://doi.org/10.17016/FEDS.2019.005