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M E M O R A N D U M

December 11, 2013

To Our Clients and Friends

Re: Federal Financial Regulators Issue Final Rules to Implement Dodd-Frank Act's "Volcker Rule"

The Federal Reserve Board, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Securities and Exchange Commission, and Commodities Futures Trading Commission (collectively the "Agencies") have jointly issued rules to implement Section 619 of the Dodd-Frank Act, commonly referred to as the "Volcker Rule." The regulations are effective on April 1, 2014, but with the exception of banking entities with $50 billion or more in assets who must report qualitative measurements beginning on June 30, 2014, full conformance with the rules will be required by July 21, 2015.

The final rules prohibit insured depository institutions and companies affiliated with insured depository institutions ("banking entities") from engaging in proprietary short-term trading of certain securities, derivatives, commodity futures and options on these products for the banking entities' own accounts. Long-term investments are not covered by the rules. The rules also limit the relationships/investments that banking entities may make in hedge funds and private equity funds. The rules provide exemptions for various activities such as market making, underwriting and hedging as well as certain others where specific requirements are met. The rules also permit investment in foreign government debt.

In addition to the limitations placed on the activities that may be engaged in, the final rules also impose compliance and reporting requirements on banking entities based on the size and scope of their trading operations. Larger banking entities (>$10 billion in assets) will be required to institute comprehensive compliance and reporting programs to control their trading operations, and CEO's will be required to attest to the fact that compliance regimes are in place to prevent improper trading. Smaller banking entities will be required to have less robust compliance schemes. The rules require that banking entities not structure their compensation regimes to encourage employees to engage in improper hedging/market making, and they also make clear that banking entities may continue to act as a customer's agent, broker, custodian, or trustee.

A copy of the Agencies' final rules can be found at our website at http://www.schwartzandballen.com/news.html

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox, Heidi Wicker, or Ben Gray at (202) 776-0700.