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August 29, 2016

The Honorable Janet L. Yellen
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

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

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

The Honorable Mary Jo White
Chair
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

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

Dear Chair Yellen, Comptroller Curry, Chairman Gruenberg, Chair White, and Chairman Massad:

I am writing with regard to the ongoing implementation of the Volcker Rule, and to request an update on the quantitative trading metrics that your agencies have been collecting pursuant to the rule. As you know, the Volcker Rule prohibits U.S. banking entities from engaging in proprietary trading, while permitting legitimate market-making and hedging activities.[1] The prohibition on proprietary trading took effect on July 21, 2015.[2]

To help the agencies distinguish permitted market-making and hedging activities from prohibited proprietary trading, the final rule requires banks with significant trading operations to report a

[1] *See* 12 C.F.R. 248.3(a) (prohibiting banks from engaging in proprietary trading); 12 C.F.R. 248.4(b) (allowing banks to engage in "market making-related activities"); 12 C.F.R. 248.5 (allowing banks to engage in "risk-mitigating hedging activities"). The rule also allows banks to engage in legitimate underwriting activities. *See* 12 C.F.R. 248.4(a) (allowing banks to engage in "underwriting activities").

[2] Board of Governors of the Federal Reserve System, *Board Order Approving Extension of Conformance Period* (December 10, 2013).

series of quantitative trading metrics to the regulators.[3] Specifically, the final rule requires these banks to report — for each trading desk — seven different quantitative metrics: (1) risk and position limits and usage; (2) risk factor sensitivities; (3) value-at-risk (VaR) and stress VaR; (4) comprehensive profit and loss attribution; (5) inventory turnover; (6) inventory aging; and (7) customer facing trade ratios.[4] These metrics are intended to help the agencies identify trades that warrant further scrutiny in order to determine whether a bank has engaged in prohibited proprietary trading.[5]

The agencies have been collecting these quantitative metrics on the trading activities of large banks since July 2014.[6] Thus, the agencies currently have nearly two years of quantitative trading data, spanning periods both before and after the effective date of the proprietary trading ban.

I believe that these quantitative trading metrics can provide important information not only about the efficacy of the Volcker Rule, but also about the general trading activities of U.S. banks, and the degree to which these trading activities have changed over the past two years. For example, there has been a vigorous debate about the liquidity of certain U.S. fixed-income markets, such as corporate bonds, and about whether the liquidity of these markets has deteriorated in recent years.[7] Data on the inventory turnover, inventory aging, and customer-facing trade ratios in the fixed-income market-making units of the large banks could prove particularly informative in this debate.

Moreover, the agencies stated in the final rule that they intended to "evaluate the data collected during the compliance period both for its usefulness as a barometer of impermissible trading activity and excessive risk-taking and for its costs."[8] The agencies indicated that they would "revisit the metrics and determine, based on a review of the data collected by September 30, 2015, whether to modify, retain or replace the metrics."[9]

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[3] *See* 12 C.F.R. 248, Appendix A.

[4] *Id.*

[5] *See* Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds, 79 Fed. Reg. 5765 (January 31, 2014) (noting that the quantitative metrics "will be used to monitor patterns and identify activity that may warrant further review.").

[6] *See* Board of Governors of the Federal Reserve System, *Volcker Rule: Frequently Asked Questions* (last updated March 4, 2016) (noting that banks had to start recording daily metrics on July 1, 2014, and had to report these daily metrics to the agencies starting on September 2, 2014), *available at* http://www.federalreserve.gov/bankinforeg/volcker-rule/faq.htm.

[7] *See e.g.*, Bank for International Settlements, Committee on the Global Financial System, *Fixed Income Market Liquidity* (January 21, 2016); JPMorgan, *U.S. Fixed Income Weekly: U.S. Corporate Bond Market Liquidity — An Update* (April 4, 2015); Blackrock, *Addressing Market Liquidity* (July 10, 2015); Barclays, *The Decline in Financial Market Liquidity* (June 16, 2015); Citi, *The Liquidity Paradox: The More Liquidity Central Banks Add, the Less There Is in Markets* (May 4, 2015); *see also* Richard Barley, "Liquidity Specter Haunts Corporate-Bond Markets," *Wall Street Journal* (January 11, 2015), *available at* http://www.wsj.com/articles/liquidity-specter-haunts-corporate-bond-markets-heard-on-the-street-1421009028; Eric Platt and Joe Rennison, "Megadeals Are Monopolising Bond Liquidity," *Financial Times* (April 6, 2016), *available at* http://www.ft.com/cms/s/0/6c6b0f12-f921-11e5-8e04-8600cef2ca75.html.

[8] 79 Fed. Reg. 5772 (January 31, 2014).

[9] *Id.*; *see also id.* at 5765 ("The Agencies will review the data collected and revise this collection requirement as appropriate based on a review of the data collected prior to September 30, 2015.").

Accordingly, I respectfully request an analysis of the quantitative trading metrics collected pursuant to the Volcker Rule — properly tailored to protect confidential supervisory information — that addresses the following issues:

- The extent to which the data showed significant changes in banks' trading activities leading up to the July 21, 2015 effective date for the prohibition on proprietary trading. To the extent that the data did *not* show a significant change in the banks' trading activities leading up to the July 21, 2015 effective date, whether the agencies believe this is attributable to the banks having ceased their proprietary trading activities prior to the start of the metrics reporting in July 2014.

- Whether there are any meaningful differences in either overall risk *levels* or risk *tolerances* — as indicated by risk and position limits and usage, VaR and stress VaR, and risk factor sensitivities — for trading activities at different banks.

- Whether the risk levels or risk tolerances of similar trading desks are comparable across banks reporting quantitative metrics. Similarly, whether the data show any particular types of trading desks (e.g., high-yield corporate bonds, asset-backed securities) that have exhibited unusually high levels of risk.

- How examiners at the agencies have used the quantitative metrics to date.

- How often the agencies review the quantitative metrics to determine compliance with the Volcker Rule, and what form the agencies' reviews of the quantitative metrics take.

- Whether the quantitative metrics have triggered further reviews by any of the agencies of a bank's trading activities, and if so, the outcome of those reviews.

- Any changes to the quantitative metrics that the agencies have made, or are considering making, as a result of the agencies' review of the data received as of September 30, 2015.

- Anything else in the data that any of the agencies — either individually or collectively — consider to be notable or important from a policymaking perspective.

The Volcker Rule's prohibition on proprietary trading is critically important, and I strongly support the agencies' efforts to implement this rule. I would appreciate a response no later than October 30, 2016. If you have any questions about this request, please contact Ben Harney on my staff at (202) 225-7944.

Sincerely,

Carolyn B. Maloney

Carolyn B. Maloney
Ranking Member
Subcommittee on Capital Markets and Government Sponsored Enterprises