Deloitte.
デロイト トーマツ

トーマツ.

'This newsletter is translated from the Japanese edition distributed on June 22nd.
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

Exit from extraordinary monetary easing: the US way and the European way, etc.

Global Risk Watch Vol.39
29 June 2018

==

≪index≫

==

2. Overview of Development in Financial Regulations (Trends & Topics)

 # The Volcker Rule revision would relax regulatory compliance burden (Shiro Katsufuji, Director, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

At the end of May, the Federal Reserve Board (FRB) proposed revisions to the Volcker Rule at an open board meeting and requested public consultation. This draft revision includes extensive regulatory relief in line with President Trump's policies to alleviate excessive financial regulation. As one of the countermeasures to the financial crisis, the Volcker Rule broadly restricts banks' proprietary trading. While the Rule is intended to inhibit banks from risky speculative trading activities, many issues have been raised since its adoption in 2013; it rigidity imposes a significant management burden to the banks; non-US banks are also affected; and, certain rules like exemptions are too complex and unclear.

The FRB draft proposes to set compliance requirements according to the size of a bank's trading assets and liabilities, to redefine what "trading account" would be considered proprietary trading, and to create rules that exempt trades with below-threshold risks. The proposal also advocates for the revision of rules on underwriting fund trading, market making, and hedging, as well as reviews exemptions for foreign banks' proprietary trading outside of the US, and simplifies regulatory reporting formats.

For mid-sized banks in particular, tailoring compliance rules based on the volume of trading assets and liabilities will ease the compliance burden. The current rule allows banks to engage in market making and hedging for clients, but it demands specific and detailed analysis and reporting (so-called RENTD, correlation analysis, etc.) to verify such activities. The draft proposes to cut back on these requirements and to widen the areas of exemption.

Foreign banks (including Japanese firms) would benefit from the relaxed exemption requirements for proprietary trading outside of the US (TOTUS). The existing regulation subjects foreign banks to the Rule if they are trading with a US entity. This costs significant resources to identify and manage trading counterparties while undermining market liquidity. The proposal is well balanced in terms of diminishing the enormous US regulatory burden for foreign institutions.

The draft revision well incorporates public opinions on the existing rules and proposes extensive regulatory relaxation. As the former FRB chair Yellen herself acknowledged after the Volcker Rule was put into effect, some of the post-crisis financial regulation in the US proved to be excessively austere. It is advisable to relax the draconian rules in order to maintain highly liquid financial markets and a stable financial system. Alongside of this, the US is working on regulatory reform to align the domestic financial regulation to the Basel regime. These trends to converge international regulation are welcome changes for financial institutions.

From a global standpoint, however, there is a movement toward enhancing stringent financial regulation such as market transaction rules in Europe (MiFID II and the Benchmarks Regulation). Globally active financial institutions should remain aware of the development of regulations across jurisdictions as well as allocate proper resources for regulatory compliance per region to establish agile strategies.
