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VOLCKER RULE TO COST BANKS BILLIONS

Although the Volcker Rule — barring banks from speculating with their own money — will not be enforced until July 2015, an analysis of the Volcker Rule's financial impact that will be felt by the financial sector has been released, and the feeling will apparently be one of —pain.

Anticipating Problems — a Key to Compliance

With such a complicated rulemaking process like the implementation of the Volcker Rule — which totaled nearly 1,000 pages — there will inevitably be problems that were not anticipated and not just the compliance costs. Banks will need to utilize the expertise of Volcker Rule risk specialists to avoid compliance missteps.

Regulator's Study Finds Up to $4.3 Billion Cost

A study conducted by the Office of the Comptroller of the Currency (OCC) has concluded that the Volcker Rule will cost U.S. national banks as much as $4.3 billion to implement as it forces them to sell restricted investments at a loss. Capital costs alone are estimated at $917 million in order for the nation's 152 national banks — those with an OCC charter — to comply with the rule.

Pro and Con in the Banking Community

Some banking professionals have welcomed the rule as a long-sought clarification of the limits of investment banking. They also cite the fact that the rule allows banks to continue to trade stocks and bonds as long as the trading is not for the purpose of generating profits for the banks — but rather for the benefit of customers.

However, opponents note not only the high cost of operating in compliance with the Volcker Rule, but also the concern that the rule might interfere with the banks' ability to trade even on behalf of certain customers. Consequently, some banks are prepared to file court challenges in advance of the rule's implementation.

Unintended Consequences for Community Banks

This past January, members of the American Bankers Association testified before the House Financial Services Committee to offer the banking industry's perspective on the unintended consequences of the Volcker Rule – particularly for the nation's community banks.

One Midwest bank CEO testified regarding potentially significant losses on collateralized debt obligations secured primarily by trust-preferred securities. The committee's recent engagement with bank regulators resulted in the regulators moving quickly to find a resolution to the problem.

Congress Voted for Community Bank Relief

Congress and the regulatory agencies were applauded for working together to find solutions to the unintended consequences: "Your many voices on the issue and sense of urgency to address unintended consequences helped move the process forward to find a satisfactory solution. This solution will help many community banks like mine and, more importantly, the customers and communities we serve," the CEO was quoted as saying.

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