Chairman Garrett Opening Statement
Hearing on "Examining the Impact of the Volcker Rule on Markets, Businesses, Investors and Job Creation"
January 18, 2012

As I have said before, it appears that the so-called Volcker Rule in a lot of ways is a solution in search of a problem. It is not clear to me that the "disease" that it seeks to cure – proprietary trading and investment in private equity and hedge funds by depository institutions – was a significant driver of the 2008 financial crisis.

But even for the rule's defenders, the form it has taken as jointly proposed by the regulators is not constructive and will almost surely do more harm than good.

For instance, when the rule was first proposed, Paul Volcker, himself, reportedly commented, "I don't like it, but there it is."

Much of the concern about the rule has been around the difficulty of figuring out the difference between proprietary trading and market making, and the very burdensome and costly compliance regime that the rule suggests.

I also have concerns that the restrictions proposed in the rule on fund investments go beyond the scope of Congressional intent.

The end result, I fear, is that market liquidity will be restricted, which ultimately kills jobs, and investment options for depository institutions will be constrained, leading to a concentration of risk on bank balance sheets that at the end of the day could make them actually less stable than they would be without this rule.

Furthermore, while the current administration likes to point to its efforts at international cooperation, several foreign governments have weighed in with their concerns about this proposal's extraterritorial overreach, as well as with their fears that it will unnecessarily increase the cost of trading foreign sovereign debt.

One thing I hope not to hear from today's first panel is that their hands are tied because the statute requires such an unwieldy and unworkable rule. While I have concerns about the statutory language, I do believe it leaves regulators with the flexibility to do better than what has been proposed to date.

Finally, I feel very strongly that this rule must be re-proposed, with another round of comments, before it goes final. The current proposal contains more than 1,300 questions that commenters must consider and respond to, but in no way resembles an implementable rule. A more complete and settled draft proposal is necessary for market participants and others to comment on before completing this rulemaking process.

In addition, more evidence is needed that a robust cost-benefit analysis has been undertaken on such an important rule that will have far-reaching impacts on our financial institutions, our markets, and, indeed, the broader economy.