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THE VOLCKER RULE TRAINING

Check out SNK Financial's Volcker Rule course to learn about the most significant regulation in contemporary financial system

Course Content

Detailed Reference Material	Slides Pack	Questions & Answers

• What is the Rule about?
• Why was it introduced?
• How does it fit within the Dodd- Frank Act and the broader regulatory context?
• Timeline and key deadlines
• Two main areas of focus of the Rule
  ▪ Prop Trading
  ▪ Covered Funds
• Volcker compliance requirements
• Impact on liquidity in financial markets
• Implementation in financial institutions
	• Slides pack summary to ensure memorizing the key points of the reference material
	• Focuses on key aspects and provides reference to the Volcker Rule booklet for more information
	• Serve as summarised guide for trainees to facilitate memorization of key points
		• 100 questions and answers to check your understanding
		• Multiple choice questions
		• Open-ended questions to fully test your interpretation of the regulation
		• Suggested answers to fill holes in your knowledge
		• Online support available from our tutors to guarantee full clarification of your questions

A snapshot of the course

Background and Overview

The Volcker Rule refers to section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. It was introduced by the former US Federal Reserve Chairman Paul Volcker in an effort to prevent banks from engaging in speculative investments, as it is believed that such speculative activities were within the core of the financial crisis that started in 2007.

Paul Volcker was appointed by President Barack Obama as a Chairman of the President's Economic Recovery Advisory Board, which advises Obama's cabinet on economic recovery matters. Volcker argued rigorously that a well-established commercial banking system is essential for the health of the whole financial system and thus bank's involvement in high-risk speculative activities creates an unacceptable level of systematics risk. He also argued that the wide use of derivatives, originally structured to hedge risk, has actually brought the opposite effect.

Thus broadly speaking, the Volcker Rule prevents banks that have commercial banking activities from engaging in proprietary trading as well as from having interests in private equity or hedge funds.

The Rule has been extensively discussed. Commentators state that it would be difficult to implement a regulation based on the intention of the trader at the moment of trade. In other words, it would be very difficult from practical point of view to report wheti activity or a forbidden proprietary trading a financial firms' competitiveness in the globa banking groups for being unrealistically cos

The timeline below outlines key events for

Figure 1: Volcker Rule's establishment time

The global financial crisis deepens. Lehman Brothers collapses.	President Obama established the President's Economic Recovery Advisory Board.	The Volcker R publicly endo by the Preside for the first ti
15 Sept 2008	6 Feb 2009	21 Jan 20

Theory of the Rule

The rule prohibits a banking entity from en interest in, or having certain relationships v financial services that are critical for marke and hedging activities.

The final rule also requires banking entities ensure compliance with the requirements c

In terms of structure of the final rule:

- **Subpart A:** describes the authority throughout the rule.

Impacts

Implementing the Volcker Rule restrictions on proprietary trading will be one of the most important, and most challenging, rulemaking responsibilities under the Dodd-Frank Act. This is due to the fact that the Rule distinguishes between prohibited trading activities and permitted activities such as securitization, underwriting, market making and hedging, which all key functions are providing liquidity in capital markets and consequently easy access to funds, which is a key engine for economic growth. Poorly constructed policies resulting from Volcker may suppress those activities and harm the functionality of US financial markets instead of strengthening them.

Banks as key liquidity providers

For most securities, derivatives, and commodities markets, banks and their dealer affiliates subject to the Volcker Rule play a critical role as the central providers of liquidity to other market participants. A poorly constructed or indiscriminately restrictive implementation liquidity in a wide range of markets, and consequently imp

Without the liquidity that dealers provide to US capital ma including:

- Reduced ability of households to build wealth thr markets
- Reduced access to credit for small or growing firr
- Reduced willingness of investors to provide capita exiting those investments

Permitted activities & liquidity

Market making inevitably involves transfer of risk from the and seller match each other without the participation of a Consequently to do market making in those markets deale

Additionally, market makers in less liquid and more fragme longer periods of time. The nature of the inventory also va contracts that cannot be simply closed out as a securities p

Furthermore, supporting customer trade flows often requi dealer's overall risk position.

The function of financial markets

The fundamental function of financial markets is to serve a channel their savings to other individuals and firms that ar needed access to capital which ensures sustained econom

The US capital markets

US is the leading market for capital formation in the world eroded as financial centers around the world become mor the world outpaces growth in the US. Consequently, althou remains high, it has fallen sharply from its peak. One of th has been superior liquidity across the full range of financia research support the evidence that strong liquidity in capit capital formation and economic growth.

Market making and liquidity

Investigating the benefits of liquidity further, it is importan

Area	Points to be addressed in policies and procedures
Trading desks	• must describe the process for identifying the financial instruments each trading desk may buy or sell • must have separate documentation for permissible market-making and hedging activity • must establish the trading desks' mission and strategy, its allocated risks, measurements of risks, the process for setting limits, the types of clients, customers and counterparties with whom the desk can trade, and its compensation arrangements
Descriptions of risks and risk management processes	• must describe the risk management and Volcker Rule compliance program for the banking entity's trading activity • must include the supervisory and management structures as well as the role of audit, compliance and units conducting independent testing
Authorized risks, instruments and products	• must set the risk limits for each trading desk based on quantitative measures of potential loss. Internal control should that establish and control these limits.
Hedging policies and procedures	• must address the use of risk-mitigating hedging instruments and strategies that trading desks will use to hedge the risk of their positions, how the banking entity will identify its risks, the level of the organization at which hedging will occur, how hedging will be monitored and by whom, and how permitted hedging will be tested and approved.
Analysis and quantitative measurements	• must perform analyses and measurements to ensure that the trading activity of each trading desk is consistent with the banking entity's compliance program • must monitor for prohibited proprietary trading • must test and review the analyses and models • must include the quantitative measurements set out in Appendix A

Enhanced Compliance Program - Covered Funds Activities or Investments

Compliance with tThe Rule also requires banking entities to maintain a compliance program appropriate for the size of the entity's covered fund activities. The compliance program's policies and procedures should address the following areas:

Table 2: Highlights that the written policies and procedures need to address regarding covered funds:

Area	Points to be addressed in policies and procedures
Identification of covered funds	• must provide a process for identifying and documenting covered funds that the banking entity invests in
Identification of covered fund activities and investments	• must identify and document each unit within the organization permitted to acquire an interest in covered fund
Explanation of compliance	• must explain how the banking entity monitors for and prohibits conflicts of interest and activities that may threaten the safety of the banking entity, and exposure to high-risk assets or high-risk trading strategies
Description and documentation of covered fund activities and investments	• must document the activities and investments that each unit engaged in covered fund activities is authorized to conduct • must endure that activities are compliant with Volcker Rule's Subpart C
Internal controls	• banking entity's internal controls must ensure that the covered fund activities and investments comply with the Volcker Rule • must monitor any covered fund activity that may lead to violations

SNK Financial

Our offer

We are currently offering the below option for the course structure. In the near future we will have more options available. Stay tuned to our website for more information.

Option 1

Independent study + offline support

Includes all course materials:

- Reference material
- Slides pack
- Q&A pack

You will have offline access to a SNK Financial tutor to answer up to 10 questions you may have on the theoretical content of the material and/ or FATCA implementation. The tutor will be available to answer your questions via e-mail.

The price of the course is £250.

To place your order please email us at info@snk-financial.com.