BETTER MARKETS

<u>The Volcker Rule</u>:

Liquidity and Other *Myths* Used to Carry Water for the Big Banks

The Dodd-Frank Act's Volcker Rule prohibits big banks from engaging in proprietary ("prop") trading, which is short-term, speculative trading without a socially useful purpose. Those big banks have a "heads we win, tails you lose" proposition: When their speculative bets are profitable, executives receives huge bonuses; when the bets go bad, taxpayers must step in to prevent losses to depositors. The critical role big banks play in the payments system and the interconnectedness of financial markets all but ensure government bailouts will follow if prop trading losses threaten a big bank's stability.

The Volcker Rule reasonably constrains the rapacious, bonus-focused culture on Wall Street that encourages socially useless trading with little if any benefit to the real economy. The Volcker Rule therefore must be maintained and strengthened, not rolled back due to Wall Street's self-serving, specious and baseless arguments. What follows are four of those misleading arguments, and the data that disprove them.

Bogus Big Bank Argument #1

"The Volcker Rule hurts liquidity by restricting market-making in the capital markets."

FALSE

<u>Reality</u>**:** There is virtually no evidence the Volcker Rule has impaired market liquidity, and independent studies show liquidity has <u>improved</u> since adoption of the Volcker Rule.

Bogus Big Bank Argument #2

"The Volcker Rule is too complex for the big banks to implement."

FALSE

<u>Reality</u>**:** The Volcker Rule is a narrow prohibition on proprietary trading made complex through the efforts of the big banks themselves, who lobbied for many of the complexities in the Volcker Rule.

Bogus Big Bank Argument #3

"Proprietary trading didn't cause the financial crisis."

FALSE

<u>Reality</u>**:** Proprietary trading resulted in hundreds of billions of dollars of trading losses leading up to and during the 2008 financial crisis. Big bank trading in complex, speculative investments - particularly mortgage-backed securities - caused significant losses to most of the major financial institutions that failed during the crisis.

Bogus Big Bank Argument #4

"The Volcker Rule will make it difficult for the big U.S. banks to compete globally."

FALSE

<u>Reality</u>**:** There is <u>zero</u> evidence the Volcker Rule has hurt the competitiveness of the U.S.'s big banks, which dominate markets globally. Return-on-equity, income, and profits are at historic levels. The largest banks reported $44 billion in trading revenue during the first half 2018, with Goldman Sachs and J.P. Morgan posting 24% and 13% increases, their best year since 2011.