

## Administration Releases Legislative Language to Restrict Size and Risky Activities of Financial Firms

In January, the President announced a proposal to limit the size of financial firms and the risky activities of banks. Today, the Treasury has delivered proposed legislative text to implement these reforms to Capitol Hill. These proposals are part of a comprehensive package of reforms to create a safer, more resilient financial system. This legislative language adds to existing activity restrictions for banking firms by prohibiting such firms from engaging in proprietary trading and from investing in or sponsoring hedge funds or private equity funds. This language would also supplement and strengthen existing financial sector concentration limits.

**Banking firms would be banned from proprietary trading:** We need to bolster existing restrictions on banking firms' activities to make the system safer and protect the taxpayer and keep banking firms focused on serving their customers. The proposed legislation would ban banking firms from engaging in "purchasing or selling, or otherwise acquiring and disposing of, stocks, bonds, options, commodities, derivatives, or other financial instruments for the institution's or company's own trading book, and not on behalf of a customer, as part of market making activities, or otherwise in connection with or in facilitation of a customer relationship (including hedging activities related to the foregoing)."

**Banking firms would be banned from investing or sponsoring hedge funds and private equity funds:** Banking firms would also be banned from investing in or sponsoring hedge funds, private equity funds, or other similar funds that are exempt from registration under Investment Company Act. The prohibition on sponsoring these private funds would include acting as a managing member or general partner of a fund, controlling the management of a fund, or sharing the firm's name with a fund.

**Banking firms would be banned from lending or providing prime brokerage services to, or bailing out, private funds advised by the firm.** Banking firms would continue to be able to serve as investment adviser to private funds, but would be prohibited from lending, providing prime brokerage services, or engaging in any transactions that provide support to a private fund advised by the banking firm. Investors in private funds advised by banking firms must have no expectation that the banking firm would bail out the funds in times of stress.

**Quantitative limits and additional capital requirements for major non-bank financial firms engaged in proprietary trading:** The proposed legislation would allow non-bank firms to continue to engage in proprietary trading and hedge fund and private equity activities, but would not allow major financial firms to escape tough supervision and oversight. These firms will be under tough consolidated supervision, more stringent capital and liquidity requirements, and be required to provide more information to the market about their risks. Moreover, any financial firm that is identified for heightened supervision under the Administration's regulatory reform proposal would be subject to additional capital and quantitative limits on these activities.

**Financial firms would not be allowed to grow by acquisition above 10% of the liabilities of the financial system:** The existing cap on deposit concentrations has become less effective as large banking firms have increasingly relied on other sources of funding, and has given these firms an incentive to shift towards riskier sources of funding. We need to update existing concentration limits to check future growth of our largest financial institutions and to make the system safer. The proposal would not allow a financial firm to acquire another company if the resulting firm would have more than 10% of the liabilities of the financial system.