

Volcker Rule Action Plan and Model Board Documents: *The Conformance and Compliance Effort Begins*

The recently issued final rules implementing section 619 of the Dodd-Frank Act (the “Volcker Rule”) start the clock on banking entities’ efforts to comply with the Volcker Rule’s prohibition on short-term proprietary trading in securities or derivatives and limitation on relationships with “covered funds.”¹ Both prohibitions are subject to detailed and highly technical exceptions spelled out in the Volcker Rule and the final implementing rules. Banking entities should now turn their attention to the process of conforming investments and activities to the basic prohibitions and limitations of the Volcker Rule and establishing required governance structures and compliance programs.

The final implementing rules become effective on April 1, 2014. The Federal Reserve Board has extended the period for banking entities to conform their investments and activities until July 21, 2015. New activities and investments should be conformed from the present, and proprietary trading activities should be promptly brought into conformity with the final implementing rules, well ahead of the 2015 conformity date. Certain banking entities with substantial trading assets and liabilities will be required to report quantitative measurements for trading activities beginning on June 30, 2014.

Attached is a Volcker Rule Action Plan and a series of model corporate documents for use in planning Volcker Rule conformance efforts. Like the Volcker Rule obligations themselves, the Action Plan and model corporate documents should be adapted based on a banking entity’s size and the scope and nature of its activities.

The Volcker Rule Requires Tailored Compliance Programs

In addition to the basic prohibitions and limitation requirements, the final implementing rules impose a series of corporate governance, compliance and control programs, recordkeeping, regulatory reporting, training, and audit requirements on almost all banking

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¹ Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds; Final Rule, 79 Fed. Reg. 5536 & 5808 (Jan. 31, 2014). The substantive requirements of the Volcker Rule are discussed in Arnold & Porter’s advisory titled *Volcker Rule - Final Implementing Rules*, <http://www.arnoldporter.com/publications.cfm?action=advisory&u=VolckerRuleFinalImplementingRules&id=1110>.

entities. These requirements become more stringent and detailed for larger banking organizations, and as the scope and complexity of a banking organization's covered activities increases, as follows:

- *Tier 1: No Compliance Program.* If a banking entity has no investments in covered funds, and does not engage in proprietary trading (other than in domestic government obligations), it is not required to have a Volcker Rule compliance program. It would only be required to implement such a program before it engages in any covered activities. As a matter of best practices, however, even the smallest banking entity should implement some sort of control infrastructure to prevent it from wandering into restricted territory.
- *Tier 2: Limited Compliance Program.* The new regulations provide that banking entities with total consolidated assets of US\$10 billion or less may satisfy the compliance program requirements by including in their existing compliance and control policies and procedures appropriate provisions referencing the Volcker Rule and its final implementing rules. Even smaller institutions with significant covered fund or proprietary trading activities may want to implement more robust Volcker Rule compliance and control programs.
- *Tier 3: General Compliance Program.* Banking entities with more than US\$10 billion in consolidated assets will be required to implement a separate Volcker Rule compliance and control program to ensure and monitor compliance. The regulations require that programs must, at a minimum, include written policies and procedures, internal controls to monitor activities and prevent violations, a framework to delineate management responsibility and accountability, independent testing and audit of the compliance program, training, and recordkeeping.
- *Tier 4: Enhanced Compliance Program.* Where a banking entity has total consolidated assets of US\$50 billion or more, or is subject to the reporting obligations for significant trading discussed below, or is directed by regulators, it will be subject to the most detailed and stringent compliance program requirements. In general,

these requirements expand upon those specified for the general program (e.g., internal controls, training, management frameworks, etc.). For example, the CEO of a banking entity that falls under this program requirement will have to attest annually in writing to regulators as to the maintenance of an appropriate compliance program.

During the regulatory conformance period, the Volcker Rule essentially requires banking entities, as part of the process of conforming existing activities and investments and building a compliance program, to map out existing trading and covered funds activities and investments, the trading desks, business units and legal entities in which they are conducted, and the personnel responsible for them. These activities and investments must be compared to the requirements of the Volcker Rule, a gap analysis performed to determine whether the existing activities and investments meet the Volcker Rule's requirements and what aspects are in non-conformity, and a plan developed to conform, terminate or divest them within the conformance period.

The Volcker Rule requires board oversight of the rule's compliance effort. Generally, this includes assignment to a board committee of oversight responsibility, designation of specific management officials by the board to conduct those trading and covered fund activities subject to the restrictions of the Volcker Rule, designation of a compliance officer for Volcker Rule activities, and a reporting line for management and reporting personnel to periodically provide updates to the board or a board committee regarding the compliance effort. For the largest banking organizations (those with US\$50 billion or more in consolidated assets) and others notified by regulators, the Volcker Rule also requires CEO attestation of the existence and effectiveness of compliance and control programs.

The attached documents include:

- *The Volcker Rule Action Plan:* This summary document contains simple checklists for board and management actions, measuring and mapping proprietary trading activities and covered fund relationships, conforming activities and investments, and developing and implementing a compliance and control program.

- **Model Board Policy for Compliance with the Volcker Rule:** The model board policy sets out appropriate governance structures; directs senior management to, among other things, develop risk management requirements, internal controls, and documentation for proprietary trading activities and investments in covered funds; provides standards for the remediation of violations, independent testing, training, and recordkeeping; and directs senior management to develop a conformance plan and report on its progress against the plan. A separate management-level set of written compliance procedures will also be required.
- **Model Board Resolutions Implementing the Volcker Rule Compliance Program:** The model board resolutions establish a Volcker Rule Committee of the board, adopt a committee charter, and designate managers and compliance officers responsible for conducting and revising the banking entity's Volcker Rule-related activities.
- **Model Volcker Rule Committee Charter:** The model committee charter creates a committee of the board to assist in fulfilling the board's oversight and monitoring obligations under the Volcker Rule.

Each banking entity should conduct a comprehensive and tailored review its investments or activities and determine the scope of the appropriate compliance program.

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Volcker Rule Action Plan

Timing:

Effective date of implementing rules: April 1, 2014.

Compliance program in place in part by April 1, 2014;

Reporting on proprietary trading phased in by size from June 30, 2014 through Dec. 31, 2016;

Compliance/conformity date for investments and activities: July 21, 2015.

Board actions:

Adopt board-level policies.

Designate oversight board committee.

Designate compliance officer.

Assign responsibility to specific senior management/reporting lines.

Require periodic reporting to committee.

Adopt timeline for implementation.

Management actions:

Prepare proposal for board consideration.

Assign staff and specific responsibilities.

Develop implementation plan and timeline.

Determine which level of compliance program required and timeline required by rule.

Measure & map, conform activities, develop and implement compliance & control program.

Report periodically to board committee on progress.

CEO attestation on compliance program.

Proprietary trading module:

Measure and Map

Map out where proprietary trading occurs within organization, by whom, what instruments, how frequently, in what amounts, in what accounts, for what purposes.

Compare activity to exclusions and exemptions:

- Buy and hold/not short-term trading or arbitrage;
- Exempted instruments (govis, munis, FX, etc.);
- Assets and instruments that are not “securities,” swaps, options or other derivatives (such as bank deposits, non-variable insurance contracts that are not derivatives, physical precious metals and currencies, loans, real estate);
- Issuance and repurchase by banking entity of its own securities;
- Cash management;
- Bona fide risk-mitigating hedging;
- Dealing and underwriting book at regulated dealer entities within defined limits to meet customer needs;
- Insurance company accounts;
- Offshore trading (foreign organizations only);
- Customer accounts (fiduciary, custody, advisory, etc.);
- Pension plans of banking entity and its clients.

Volcker Rule Action Plan

Report to board on current status and what needs to be changed on what timeline.

Conform

Develop plan to conform, terminate or divest trading activities.

- Compare map of all business units and activities that are engaged in short-term trading or arbitrage to exemptions and identify what needs to change.
- Demarcate and separate permitted cash management activities, define permitted cash investments, maturities, portfolio duration, risk and strategy (keeping also in mind 12 CFR Part 1, and LCR rule requirements) and conduct through separate accounts.
- Demarcate and separate permitted U.S. government and agency securities and municipal government securities investment and trading activities from other trading and investment activities. Define permitted investments, maturities, portfolio duration, risk and strategy and conduct through separate accounts.
- Define permitted risk-reducing hedging activities, set strategy, permitted instruments, metrics, tracking to hedged asset, controls, business units and assets hedged (note that diversification is not considered “hedging” for this purpose).
- Define permitted dealing and underwriting activities and positions in regulated dealer units, define and conform book size, holding periods and position limits, compensation program for traders.
- Review, define and conform permitted FX, interest rate swaps, contracts and trading.
- Review loan portfolio for anything that might be a “security” and conform as necessary.
- Review, define and conform “buy and hold” investment positions, separate from trading accounts and arbitrage activities. Establish system to monitor and detect any short-term trading.
- Figure out what is left, and determine whether and how to conform or terminate it.

Implement controls and measurements.

Assign timelines, specific responsibilities, internal reporting for conforming activities.

Report to board on progress and status of conforming activities.

Develop and Implement Compliance and Control Program

Development and implementation of compliance program for proprietary trading:

- Determine what level and type of compliance program required by rules based on size of organization and nature and extent of proprietary trading;
- Develop timelines, assign specific responsibilities, internal reporting for developing and implementing compliance program;
- Develop written compliance program;
- Written description of management responsibilities and management systems;
- Develop record-keeping system;
- Develop management information system;

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- Develop system for internal compliance reporting;
- Develop system for regulatory compliance reporting;
- Develop quantitative risk measurement systems–
 - Risk and position limits and usage
 - Risk factor sensitivities
 - Value-at-Risk and Stress VaR
 - Comprehensive profit and loss attribution
 - Inventory turnover
 - Inventory aging
 - Customer-Facing Trade Ratio;
- If applicable, develop “Appendix B” programs–
 - Trading desk policies and procedures
 - Description of risks and risk-management procedures
 - Limits and internal controls on risks, instruments and products
 - Hedging policies and procedures
 - Enhanced analysis and quantitative measurements
 - Other compliance requirements;
- Develop system of internal controls;
- Assign internal audit team/retain external testing group to test compliance;
- Develop internal audit program;
- Develop risk management policies, procedures and controls, position limits, etc.;
- Develop conflicts of interest policies, procedures and controls;
- Develop compliance training program;
- Develop formal compliance and approval process for approving new investment and trading activities and changes to activities; and
- CEO attestation as to compliance program.

Implement compliance and control programs.

Report to board on progress in developing and implementing compliance and control program.

Periodic independent testing of compliance program.

Periodically review and update compliance and control programs.

Covered funds module:

Measure and Map

Look carefully at:

- Private investment funds sponsored or advised by banking entity or provided to clients;
- Securitization vehicles in which banking entity invests as principal;
- Securitization vehicles sponsored, used or serviced by banking entity;

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- All principal investments in BOLI, CRA/SBIC, leveraged leasing structures, loan and other asset participations, interests in lease and loan pools, CLOs, CDOs, TruPs, tax-credit partnerships, two-tiered real estate structures, private REITs, private equity, venture capital, hedge funds and other investment funds or privately-placed structured investments or pools;
- Anything that has a private placement memorandum, or that is offered in a private placement, 144A transaction, is restricted as to transfer, is limited to 100 or fewer beneficial owners, or that mentions Sections 3(c)(1) or 3(c)(7) of Investment Company Act, “qualified purchasers” or “qualified institutional buyers”; and
- What business units involved in investing in, sponsoring or servicing private investment funds.

Develop list of covered funds–

- In which the banking entity is an investor as principal (along with measure against 3%/3% test);
- For which the banking entity is a “sponsor”;
- To which the banking entity provides advisory or other services;
- With which the banking entity does business as a principal; or
- That are “controlled” by the banking entity (as defined in BHC Act).

Document exclusions from being a “covered fund” and exemptions for sponsorship of, servicing or investment in covered funds.

Determine options for:

- Disposing of or decreasing investments as principal;
- Eliminating sponsorship (e.g., change fund name, restructure so not a trustee, general partner, managing member and not in control of board, no guarantee of fund);
- Eliminating “control” of covered fund by banking entity.

Consider options for restructuring covered funds into something else (e.g., registration under Investment Company Act, business development company, common trust fund, conforming asset securitization, etc.).

Consider options for fitting fund relationships within an exemption for “sponsorship” or investment (fiduciary fund exemption, SBIC/CRA fund exemption, securitization exemption, hedging, BOLI insurance exemption) and map requirements of exemption against current structure.

What changes would be required to conform the fund? What approvals needed from other investors and service providers? What are steps/timeframe to accomplish changes?

Evaluate accounting treatment of principal positions that cannot be conformed (available for sale?).

Analyze servicing relationships for conformity to affiliate transaction restrictions of Volcker Rule–

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- No guarantees;
- No direct or indirect extensions of credit or other 23A “covered transactions” with covered funds;
- 23B conformity/not less favorable to banking entity than arms’ length terms;
- No investment as principal (except within narrow limits permitted by rules);
- No purchases of assets.

Analyze risk exposures and conflicts of interests involving covered funds and banking entity.

Calculate and model projected capital haircuts for retained investments in covered funds.

Report to board on current status and what needs to be changed on what timeline.

Conform

Change name of covered funds to eliminate any similarity to name of banking entity or use of word “bank”.

Restructure and conform covered fund structures and relationships to permitted relationships.

Divest or redeem principal investments in covered funds to permitted limits.

If cannot be divested or conformed, consider seeking time extension from Federal Reserve.

Implement steps to reduce or eliminate risk exposures and conflicts of interest.

Update disclosure documents of covered funds (and/or send supplemental disclosures to existing investors) to include Volcker Rule items.

Update Form PF, Form D, Form 99, Form ADV Schedule D and Part 2, and other filings of funds to conform to name and other changes to covered funds.

Report to board on progress and status of conforming activities.

Develop and Implement Compliance and Control Program

Development and implementation of compliance program for covered funds activities:

- Determine what level and type of compliance program required by rules based on size of organization and nature and extent of covered funds activities;
- Develop timelines, assign specific responsibilities, internal reporting for developing and implementing compliance program;
- Implement process for identifying and documenting covered funds and exemptions, business units involved in covered funds activities and their permitted activities;
- Develop written compliance program;
- Description of compliance program meeting “Appendix B” requirements;

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- Valuation/pricing program and requirements;
- Written description of management responsibilities and management systems;
- Program for monitoring/limiting investments as principal in covered funds;
- Program for monitoring/limiting aggregate investments in SBICs, CRA, historic tax credit funds;
- Program for disclosures to investors in covered funds;
- Program for monitoring/compliance with covered transaction restrictions;
- Develop record-keeping system;
- Develop management information system;
- Develop system for internal compliance reporting;
- Develop system for regulatory compliance reporting;
- Develop system of internal controls;
- Assign internal audit team/retain external testing group to test compliance;
- Develop internal audit program;
- Develop risk identification and management policies, procedures and controls;
- Develop conflicts of interest policies, procedures and controls;
- Develop compliance training program;
- Develop formal compliance and approval process for approving new fund relationships, modification of existing fund relationships; and
- CEO attestation as to compliance program.

Implement compliance and control programs.

Report to board on progress in developing and implementing compliance and control program.

Periodic independent testing of compliance program.

Periodically review and update compliance and control programs.

[FORM OF BOARD POLICY FOR COMPLIANCE WITH THE VOLCKER RULE]

The board of directors (“Board”) is responsible for oversight of the Bank’s establishment, maintenance, and enforcement of a compliance and control program for ensuring and monitoring compliance with the prohibitions and restrictions on proprietary trading and covered fund activities and investments set forth in section 13 of the Bank Holding Company Act (together with the implementing regulations, the “Volcker Rule”).

The implementing regulations become effective on April 1, 2014. The Federal Reserve Board has extended the conformance period until July 21, 2015, but the Bank will be required to report quantitative measurements for its trading activities beginning on June 30, 2014.

The Board adopts this policy to ensure that the Bank complies with the Volcker Rule. Management of the Bank shall prepare and implement a detailed program of control and compliance regarding “proprietary trading” and “covered funds” activities consistent with the requirements of the Volcker Rule and principles of safe and sound banking.

I. General Governance Matters

A. Establishment of and Delegation to the Board’s Volcker Rule Committee

The Board has established a Volcker Rule Committee and delegated the responsibility for overseeing the Bank’s compliance with the Volcker Rule to its Volcker Rule Committee. The Volcker Rule Committee must review and approve the Bank’s Volcker Rule compliance program prepared by senior management and any update to it. The Volcker Rule Committee shall receive and review reports from senior management relating to the compliance program and take necessary action.

B. Compliance Program

The Board directs senior management of the Bank to establish a compliance and control program for ensuring and monitoring compliance with the Volcker Rule before [December 31, 2014], except that senior management must ensure that the Bank will be able to report quantitative measurements for its trading activities beginning on June 30, 2014. The compliance program shall be designed to meet the requirements of the Volcker Rule, including the requirements of Subpart D of the implementing regulations and the enhanced standards in Appendix B to the implementing regulations. A summary of these requirements, which represents the Board’s expectation for the minimum breadth of the compliance program, is set forth below as part of this policy.

Senior management shall review and update the compliance program as necessary, but at least annually. If the business activities of the Bank that are subject to the Volcker Rule change materially, the compliance program must be updated accordingly.

Senior management shall report to the Volcker Rule Committee on the implementation of the compliance program at least monthly through July, 2015, and thereafter quarterly or more

frequently if required by the compliance program (for example, in connection with remediation of violations).

C. Assignment of Responsibility

Senior management is responsible for implementing the compliance and control program. Under the implementing regulations, the Chief Executive Officer of the Bank is required to attest in writing to the [Agency], annually, that the Bank has in place processes to establish, maintain, enforce, review, test, and modify the compliance program in a manner reasonably designed to achieve compliance with the Volcker Rule.

For each trading desk and each organizational unit engaged in covered fund activities and investments, senior management shall appoint a manager who is responsible for implementing the compliance program with respect to the trading desk or organizational unit.

Senior management shall maintain a schedule that sets out, by name and title, (a) each senior executive officer who is responsible for the enterprise-wide implementation of the compliance program, (b) each manager who is responsible for the implementation of the compliance program at each trading desk or organizational unit engaged in covered fund activities and investments, and (c) a clear reporting line showing a chain of responsibility.

The Volcker Rule Committee shall designate senior executive officers to be responsible for the enterprise-wide implementation of the compliance program. The performance review and compensation of any such senior executive officer shall take into account the officer's effectiveness in implementing the compliance program and ensuring compliance with the Volcker Rule.

Senior management shall establish a compensation structure that provides appropriate incentives for implementing the compliance program. The performance review and compensation of each manager responsible for implementing the compliance program at each trading desk and each organizational unit engaged in covered fund activities and investments shall take into account the manager's effectiveness in implementing the compliance program and ensuring compliance with the Volcker Rule. Compensation arrangements for traders engaged in underwriting or market making-related activities or risk-mitigating hedging activities shall not reward or incentivize prohibited proprietary trading, or encourage excessive or imprudent risk-taking and shall instead conform to the requirements of the implementing rules.

II. Proprietary Trading Module of the Compliance Program

A. Risk Management Processes

The risk management processes shall include the following elements:

1. The reporting line for managing the risks of trading activity, including processes for initial and senior-level review of new products and new strategies;

2. The process for using models in managing the risks of trading activity and related positions, including periodic independent testing of the reliability and accuracy of the models;
3. The process for establishing and reviewing limits for each trading desk;
4. The management review process, including escalation procedures, for approving any temporary exceptions or permanent adjustments to limits for each trading desk; and
5. The process for the audit, compliance, and risk management functions to conduct independent testing of trading and hedging activities, techniques, and strategies.

B. Policies and Procedures for Each Trading Desk

Written policies and procedures governing each trading desk shall include:

1. The process for identifying, authorizing, and documenting financial instruments the trading desk may trade, with separate documentation for market making-related activities and for risk-mitigating hedging activities;
2. Mapping the trading desk to the division, business line, or other organizational structure that is responsible for managing and overseeing the trading desk's activities;
3. The type of trading activity (e.g., market making or trading in sovereign debt) and strategy of the trading desk;
4. The activities that the trading desk is authorized to conduct, including (i) authorized instruments and products, and (ii) authorized hedging strategies, techniques, and instruments;
5. Limits on the types and amount of risks the trading desk may incur;
6. Description of how the risks will be measured;
7. Discussion on why the permitted levels of risks are appropriate to the activities authorized for the trading desk;
8. Limits on the holding period of, and the risk associated with, financial instruments under the responsibility of the trading desk;
9. The process for setting new or revised limits, as well as escalation procedures for granting exceptions to any limits or to any policies or procedures governing the desk, the required analysis to support revising limits or granting exceptions, and the process for independently reviewing and documenting those exceptions and the underlying analysis;
10. The process for introducing new products, trading strategies, and hedging strategies;
11. The type of clients, customers, and counterparties with whom the trading desk may trade; and
12. The compensation arrangements, including incentive compensation, which shall be designed not to reward or incentivize prohibited proprietary trading or excessive or imprudent risk-taking.

C. Hedging Policies and Procedures

Written policies and procedures for the use of risk-mitigating hedging instruments and strategies shall describe:

1. The positions, techniques, and strategies that each trading desk may use to hedge the risk of its positions;

2. How the Bank will identify risks and determine that those risks have been properly and effectively hedged;
3. The level of the organization at which hedging activity and management will occur;
4. Who will monitor hedging strategies and how;
5. The risk management processes for controlling unhedged or residual risks; and
6. How each trading desk and the Bank as a whole engages in hedging in reliance on the exemption for risk-mitigating hedging activities.

D. Internal Controls for Authorized Risks, Instruments, and Products

Internal controls shall monitor and enforce limits on:

1. The financial instruments (by type and exposure) that each trading desk may trade;
2. The types and levels of risks that each trading desk may take; and
3. The types of hedging instruments used, hedging strategies employed, and the amount of risk effectively hedged.

E. Analysis and Quantitative Measurements

Analysis and quantitative measurements shall be tailored to the particular risks, activities, and strategies of each trading desk. They shall include:

1. Quantitative measurements for each trading desk, including:
 - a. Risk and position limits and usage;
 - b. Risk factor sensitivities;
 - c. Value-at-Risk and Stress VaR;
 - d. Comprehensive Profit and Loss Attribution;
 - e. Inventory Turnover;
 - f. Inventory Aging; and
 - g. Customer-Facing Trade Ratio; and
2. Internal controls and written policies and procedures reasonably designed to ensure the accuracy and integrity of quantitative measurements;
3. Ongoing, timely monitoring and review of calculated quantitative measurements;
4. Numerical thresholds for each trading desk and heightened review of trading activity not consistent with the thresholds, including related analysis, escalation procedures, and documentation; and
5. Immediate review and investigation of the trading desk's activities, escalation to senior management with oversight responsibilities for the trading desk, timely notification to the regulator, appropriate remedial action, and documentation of the investigation findings and remedial action taken, in the event of a finding of a reasonable likelihood that the trading desk violated the Volcker Rule.

F. Liquidity Management Plan

To distinguish between trading for liquidity management purposes and prohibited proprietary trading, the Bank shall maintain a written liquidity management plan that:

1. Sets out the securities authorized for liquidity management, limits on the amount, types, and risks of those securities, and the liquidity circumstances in which the securities may or must be traded;
2. Requires trading in securities under the plan be principally for the purpose of liquidity management;
3. Requires that the securities traded be highly liquid and their market, credit, and other risks not give rise to appreciable profits or losses as a result of short-term price movements;
4. Limits trading for liquidity management purposes to an amount that is consistent with the Bank's near-term funding needs; and
5. Includes written policies and procedures, internal controls, analysis, and independent testing.

G. Overall Compliance Requirements

The compliance program shall:

1. Identify activities of each trading desk that will be conducted in reliance on exemptions from the prohibitions on proprietary trading, including an explanation of:
 - a. How and where in the Bank the activity occurs, and
 - b. Which exemption is being relied on and how the activity meets the specific requirements for reliance on the exemption.
2. Establish policies for monitoring and preventing material conflicts of interest between the Bank and its clients, customers, or counterparties.
3. Describe how the Bank monitors for and prohibits material exposure to high-risk assets or high-risk trading strategies presented by each trading desk that relies on an exemption from the prohibitions on proprietary trading.

III. Covered Fund Activities or Investments Module of the Compliance Program

A. Identification of Covered Funds

The compliance program shall include a process for identifying and documenting covered funds that each organizational unit invests in, sponsors, or organizes and offers. The documentation shall identify the exemption or exclusion under which the Bank is permitted to invest in or sponsor each covered fund under the Volcker Rule.

B. Identification of Covered Fund Activities and Investments

The compliance program shall identify each organizational unit that is permitted to invest in or sponsor any covered fund and map each such unit to the division, business line, or other organizational structure that is responsible for managing and overseeing that unit's activities and investments.

C. Documentation of Covered Fund Activities and Investments

For each organizational unit engaged in covered fund activities and investments, the compliance program shall document:

1. The covered fund activities and investments that the unit is authorized to conduct;
2. The Bank's plan for actively seeking unaffiliated investors to ensure that any investment by the Bank conforms to the investment limits or that the fund becomes registered under the securities laws and thereby exempt from the limits within the required period; and
3. How the unit complies with the requirements of the Volcker Rule.

D. Overall Compliance Requirements

The compliance program shall include processes and safeguards with respect to the Bank's covered fund activities and investments to prevent:

1. Material conflicts of interest between the Bank and its clients, customers, or counterparties;
2. Any threat to the safety and soundness of the Bank; and
3. Material exposure to high-risk assets or high-risk trading strategies.

E. Internal Controls

The Bank shall establish internal controls that:

1. Monitor and limit the Bank's individual and aggregate investments in covered funds;
2. Monitor the amount and timing of seed capital investments, and the effectiveness of efforts to seek unaffiliated investors;
3. Monitor required disclosures to prospective and actual investors in any covered fund sponsored by the Bank;
4. Monitor for and prevent any relationship or transaction between the Bank and a covered fund that is prohibited under the Volcker Rule; and
5. Require appropriate management review and supervision on an enterprise-wide basis to ensure that services and products provided by all affiliated entities comply with the limitations of the Volcker Rule.

IV. Remediation of Violations

The compliance program shall provide for remediation of violations. The program shall:

1. Effectively monitor and identify for further analysis any trading activity, or covered fund activity or investment, that may indicate potential violations;
2. Establish procedures for identifying and remedying violations, including a requirement to promptly document and remedy any violation and document all proposed and actual remediation efforts;
3. Include specific written policies and procedures reasonably designed to assess the extent to which any activity or investment indicates that modification to the Bank's

- compliance program is warranted and to ensure that appropriate modifications are implemented; and
4. Provide for prompt notification to appropriate management, including senior management and the Board's Volcker Rule Committee, any material weakness or significant deficiencies in the design or implementation of the compliance program.

V. Independent Testing

The compliance program shall provide for independent testing at least annually. The independent testing shall be conducted by either the internal audit department or outside auditors. It shall include an evaluation of:

1. The overall adequacy and effectiveness of the Bank's compliance program;
2. The effectiveness of the Bank's internal controls; and
3. The effectiveness of the Bank's management processes.

VI. Training

The compliance program shall include an appropriate training program.

VII. Recordkeeping

The compliance program shall include appropriate recordkeeping requirements and procedures, consistent with the requirements of the implementing regulations and Appendix A to the implementing regulations.

VIII. Conforming Existing Activities and Investments

Senior management shall proceed to promptly identify, map and document existing trading and covered funds activities; develop and present to the Volcker Rule Committee a plan to conform or terminate those existing trading and covered funds activities on or before July 21, 2015 consistent with the requirements of the Volcker Rule; and periodically report to the Volcker Rule Committee on progress in implementing that plan. The conformance plan shall include a process for demarcating and carrying on permitted trading activities (such as cash management, government securities and municipal securities trading) separately from buy-and-hold investment activities through different accounts. To the extent any activities or investments are determined not to be able to be conformed or divested on or before July 21, 2015, senior management shall promptly report to the Volcker Rule Committee. If an application for an extension is necessary, it should be submitted to the Federal Reserve no later than January 20, 2015 and *must* be submitted no later than April 21, 2015.

**[FORM OF BOARD OF DIRECTORS RESOLUTIONS TO IMPLEMENT VOLCKER
RULE GOVERNANCE PROGRAM]**

The members of the Board of Directors (the “Board”) of _____ (the “Bank”), present in person or by telephone at a meeting of the Board held on _____, 2014, at which a quorum was present and acting throughout, hereby adopt the following Resolutions:

WHEREAS, on December 10, 2013 the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Securities and Exchange Commission adopted final rules (the “Final Rules”) implementing Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Section 619,” and, together with the Final Rules, as they may be amended from time to time, the “Volcker Rule”); and

WHEREAS, the Final Rules become effective on April 1, 2014 and require that banking entities, including the Bank, develop and implement a compliance program reasonably designed to ensure and monitor compliance with the prohibitions on proprietary trading and covered fund activities and investments set forth in the Volcker Rule; and

WHEREAS, the Bank is required to conform all activities and investments to the requirements of the Volcker Rule by July 21, 2015 (the “Conformance Date”) and to commence reporting on its covered trading activities beginning on [Date] (the “Initial Reporting Date”); and

WHEREAS, the Board has determined that it is in the best interests of the Bank to establish a comprehensive program for compliance with the Volcker Rule, commensurate with the type, size and scope of the Bank’s activities, including, without limitation, ongoing Board oversight, the adoption of appropriate policies and procedures and the implementation of those policies and procedures by Bank Management (the “Volcker Rule Compliance Program”); and

WHEREAS, the Board, in furtherance of these objectives, has reviewed the Volcker Rule Committee Charter attached to these Resolutions as Annex A and the Board Policy for Compliance with the Volcker Rule (the “Board Policy”) attached to these Resolutions as Annex B; and

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby establishes a Board “Volcker Rule Committee,” to be initially composed of _____, _____, and _____, and thereafter of at least three members of the Board chosen by the full Board from time to time, to serve at the discretion of the full Board and until such time as their successors shall be appointed; provided, that, in order for a director to be eligible to serve on the Committee, he or she must be “independent” as that term is defined in the Volcker Rule Committee Charter; and

BE IT FURTHER RESOLVED, that the Volcker Rule Committee shall have the primary responsibility, subject to review and ratification or adjustment by the full Board, for oversight of the Bank’s compliance activities, in accordance with the terms of the Volcker Rule Committee Charter; and

BE IT FURTHER RESOLVED, that the Volcker Rule Committee Charter is hereby approved and adopted in the form attached to these Resolutions; and

BE IT FURTHER RESOLVED, that the Board hereby establishes the position of Chief Volcker Rule Compliance Officer (the “Chief Compliance Officer”), who shall supervise Bank officers and employees tasked with maintaining Bank Compliance with the Volcker Rule and hereby appoints _____ as the Chief Compliance Officer; and

BE IT FURTHER RESOLVED, that the Chief Compliance Officer shall serve at the pleasure of the Board and until a successor is appointed by the Board and shall report directly to the Volcker Rule Committee and be available to report to the full Board when and as required; and

BE IT FURTHER RESOLVED, that _____, or such other officer of the Bank as the Board shall appoint from time to time, shall be designated as the “Proprietary Trading Officer,” and shall oversee the operations of the Bank’s proprietary trading activities; and

BE IT FURTHER RESOLVED, that _____, or such other officer of the Bank as the Board shall appoint from time to time, shall be designated as the “Covered Funds Officer,” and shall oversee the operations of the Bank’s covered funds activities; and

BE IT FURTHER RESOLVED, that the Proprietary Trading Officer and the Covered Funds Officer shall each report directly to the Bank’s Chief Executive Officer with respect to the operations under his or her supervision and shall consult from time to time with the Chief Compliance Officer as appropriate with regards to the implementation and effectiveness of the Volcker Rule Compliance Program as it relates to such operations; and

BE IT FURTHER RESOLVED, that _____, or such other officer of the Bank as the Board shall appoint from time to time, shall be designated as the “Volcker Rule Audit Officer,” and shall oversee any internal audit and testing activities undertaken to assess the Bank’s ongoing compliance with the Volcker Rule Compliance Program; and

BE IT FURTHER RESOLVED, that the Volcker Rule Audit Officer shall report directly to [insert whichever officer has oversight responsibility for the internal audit function] and shall consult from time to time with the Chief Compliance Officer as appropriate with regards to the implementation and effectiveness of the Volcker Rule Compliance Program as assessed through and internal audit or testing; and

BE IT FURTHER RESOLVED, that the Board Policy is hereby approved and adopted in the form attached to these Resolutions; and

BE IT FURTHER RESOLVED, that the Chief Compliance Officer is hereby authorized and directed to work with Bank Management, Bank employees and third parties, including outside counsel and consultants, to develop the Volcker Rule Compliance Program in accordance with the Board Policy and satisfying the applicable requirements of the Volcker Rule, as summarized in the Board Policy; and

BE IT FURTHER RESOLVED, that without limiting in any way its scope, the Volcker Rule Compliance Program shall address:

- The preparation of appropriate written policies and procedures;
- Internal controls for monitoring compliance and preventing prohibited activities and investments;
- A management framework that clearly delineates responsibility and accountability for compliance;
- Independent testing and audit of effectiveness of the compliance program;
- Training personnel as necessary or appropriate to assure effective implementation and enforcement of the compliance program; and
- Record keeping sufficient to demonstrate compliance; and

BE IT FURTHER RESOLVED, that the Chief Compliance Officer shall report to the Volcker Rule Committee or a designee thereof on the progress of implementation of the Volcker Rule Compliance Program not less frequently than monthly through the Conformance Date, and thereafter not less frequently than quarterly (and more often as the Volcker Rule Committee shall deem necessary or appropriate), with copies of any materials relating to such implementation to be promptly provided to the full Board; and

BE IT FURTHER RESOLVED, that the Chief Compliance Officer shall be available to respond to questions from members of the Volcker Rule Committee or the full Board in a timely manner; and

BE IT FURTHER RESOLVED, that not later than _____, 2014, the Chief Compliance Officer shall deliver to the Volcker Rule Committee a detailed schedule of timing and responsibility for full implementation of the Volcker Rule Compliance Program, including, without limitation, (1) the preparation of all written policies and procedures, and all other documentation necessary or appropriate for the Program; (2) full implementation of the conformance of all activities and investments to the requirements of the Volcker Rule by the Conformance Date; (3) full implementation of all required reporting of covered trading activities by the Initial Reporting Date; and (4) full compliance with any other requirements of the Volcker Rule that may become effective prior to the Conformance Date on or before such earlier date; and

BE IT FURTHER RESOLVED, that the Bank, the Board, the Volcker Rule Committee and the Chief Compliance Officer shall take all necessary and appropriate actions to ensure full and timely implementation of the Volcker Rule Compliance Program; and

BE IT FURTHER RESOLVED, that that the proper officers of the Bank are authorized in the name and on behalf of the Bank, to take or cause to be taken all such further actions and to execute and deliver or cause to be executed and delivered all such further agreements, documents, certificates, applications, filings and undertakings and to incur all such fees and expenses as in their judgment shall be necessary, appropriate or convenient to carry into effect the purpose and intent of any and all of the foregoing resolutions; and

BE IT FURTHER RESOLVED, that the proper officers of the Bank for purposes of the foregoing resolutions are, and shall be, _____.

[FORM OF VOLCKER RULE COMMITTEE CHARTER]

_____ BANK
Volcker Rule Committee Charter
As of _____, 2014

Purpose

The Volcker Rule Committee (the “Committee”) of the Board of Directors (“Board”) of _____ Bank (the “Bank”), is established to assist the Board in fulfilling its oversight responsibilities regarding compliance with Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Section 619”) and the final rules adopted by the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Securities and Exchange Commission to implement Section 619 (the “Final Rules”) (the Final Rules, as they may be amended from time to time, together with Section 619, constituting the “Volcker Rule”).

Membership

The Committee shall be comprised of at least [three] directors, all of whom shall be “independent” directors (as defined herein), who will serve as “Committee Members” (see Appendix A). Committee Members shall be appointed by the Board. The Bank’s [_____] shall serve as the Committee Secretary. The Board shall determine each Committee Member’s independence at least annually.

To be considered independent, a director must be free of any relationship that would render the director beholden to the Bank, its affiliates or their management. Generally, a director will not be considered independent if such director:

- Is, or has been within the preceding three years, an officer, employee or consultant of the Bank or an affiliate.
- Is, or has been within the preceding three years, a member of the immediate family of a current officer or employee of the Bank or an affiliate.
- Is an executive officer, partner or affiliate, or directly or indirectly owns or controls (or has directly or indirectly owned or controlled within the preceding three years) assets representing 10 percent or more of any outstanding class of voting securities, of an institution that has a significant commercial, legal, consulting, advisory or charitable relationship with the Bank or an affiliate.
- Has a material relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a committee member.

Meetings

The Committee shall meet at not less frequently than monthly through July 21, 2015 (the date by which the Bank is required to conform all activities and investments to the requirements of the Volcker Rule), and thereafter not less frequently than quarterly, and more frequently as the Committee shall deem necessary or appropriate. The Committee shall meet at a time and place determined by the Committee Chair, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed necessary or desirable by the Committee or its Chair. Members of the Committee may participate in a meeting of the Committee by means of conference call or a similar communication method by means of which all persons participating in the meeting can hear each other.

A majority of the members of the Committee shall constitute a quorum. All matters to be determined by the Committee shall be determined by a majority vote of the members present at a meeting at which a quorum is present. In the event of a tie vote on any matter, the Chair's vote shall determine the matter. The Committee Chair shall be a member that is nominated by the Chief Executive Officer ("CEO") of the Bank and approved by the Committee.

The Committee shall meet periodically with the Chief Volcker Rule Compliance Officer (the "Chief Compliance Officer") and the CEO and such other members of Bank Management as it deems appropriate, in combined or separate sessions, and have such other direct and independent interaction with such persons from time to time, as the members of the Committee deem appropriate.

Resources and Cooperation

The Committee shall have the authority to meet with and seek any information it requires from employees, officers or directors of the Bank or any of its affiliates and may also retain legal counsel or other independent consultants, as it deems appropriate, to facilitate the discharge of the Committee's responsibilities. The Committee is empowered to conduct its own investigations into issues related to its responsibilities.

The Bank shall provide for appropriate funding, as determined by the Committee, for payment of compensation to any consultants or advisors retained by the Committee and for administrative expenses of the Committee.

Responsibilities and Duties

The Committee shall assist the Board in fulfilling oversight responsibilities with respect to corporate-wide satisfaction of Volcker Rule compliance requirements. In particular, the Committee shall:

1. Oversee and monitor the Bank's and affiliates' Volcker Rule Compliance Program (the "Compliance Program") and maintenance of required policies and procedures, which shall include:
 - The systems, controls, policies, procedures and processes designed to ensure that the Bank complies with the requirements of the Volcker Rule and prevent the occurrence of prohibited activities or investments.
 - A system of internal controls reasonably designed to monitor compliance with the Volcker Rule.
 - A management framework that clearly delineates responsibility and accountability for Volcker Rule compliance that includes appropriate management review of trading limits, strategies, hedging activities, investments, incentive compensation and other matters identified as requiring attention.
 - Independent testing and audit of the effectiveness of the compliance program, conducted periodically.
 - Appropriate training for trading personnel and managers, as well as other appropriate personnel, to effectively implement and enforce the compliance program.
 - Appropriate record-keeping and periodic reporting requirements consistent with the standards laid out in the Final Rules.
 - Regular reporting by the Bank's management, including the Chief Compliance Officer, to the Committee, and, as appropriate, the Board, regarding the status of the Bank's compliance efforts.
2. Recommend to the Board the appointment of the Chief Compliance Officer.
3. Oversee the activities of the Chief Compliance Officer, who shall have a reporting line to the Committee.
4. Assess with Management, the Chief Compliance Officer, and with legal or other advisors, the Bank's compliance with the Volcker Rule, and any significant legal and regulatory exposures or concerns identified with respect to Volcker Rule compliance.
5. Regularly report to the Board regarding the Committee's activities, including its assessment of the adequacy of the Bank's Volcker Rule compliance, including applicable policies and procedures and Management's effectiveness in the execution thereof.

6. Oversee and monitor the ongoing effectiveness of communications with Federal agencies engaged in any Volcker Rule compliance review or examination of the Bank. The Committee shall receive regular reporting by Management and the Chief Compliance Officer regarding communications with such government agencies, including providing to the Committee copies of all written communications to and from such agencies.
7. Oversee and monitor Management’s compliance with the Volcker Rule, including any terms and conditions required from time to time by any action, formal or informal, of any federal regulatory agency, and oversee Management’s timely responses to any inquiries from any such agency, ensuring that the appropriate corrective and preventive actions have been implemented by Management.
8. Review and reassess the adequacy of this Charter at least annually and recommend any changes to the Board for approval.
9. Evaluate the Committee’s performance on an annual basis and establish criteria for such evaluation. The results of the annual evaluation will be discussed with the Board.
10. Oversee and monitor Management’s program and process for identifying, documenting and conforming, divesting or terminating existing proprietary trading and covered funds activities and investments as required by July 21, 2015.

Charter Revision History		
Date	Comment	Approved by/Reported

Appendix A

COMMITTEE COMPOSITION