

FDIC Lifts Curbs on Swaps and Investing

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WASHINGTON -- Federal agencies moved Thursday to roll back financial regulations that could free up tens of billions of dollars for major banks and allow them to invest more in venture-capital funds, delivering Wall Street one of its biggest wins of the Trump administration.

The Federal Deposit Insurance Corp. voted 3-1 to complete a final rule to reduce the amount of cash that banks must set aside as collateral to cover potential losses on swap trades. The Federal Reserve and Office of the Comptroller of the Currency also signed off on the changes.

Regulators including the Fed and FDIC also moved to remove limits on banks' investment in vehicles such as venture-capital funds and credit funds. Those restrictions were part of a broader set of regulations known as the Volcker rule. The changes were opposed by Democratic appointees at both the Fed and FDIC, who said they would allow banks to engage in the sort of risky activities that regulators identified and sought to contain after the financial crisis. Wall Street lobbyists applauded the changes.

Swaps are a form of derivatives in which two parties agree to exchange payments based on fluctuations in interest rates, currencies or other financial instruments. A lack of transparency in the market -- which by one measure amounts to hundreds of trillions of dollars -- and unseen exposure to massive losses were key contributors to the 2008 financial crisis.

Regulators in the years since have required standardized swaps to trade on electronic exchanges and clear through facilities known as central counterparties, to provide greater transparency and to centralize risk. But swaps that are tailor-made to fit the specific needs of buyers and sellers continue to be exchanged privately.

For these over-the-counter swaps, regulators require a fixed amount of collateral, known as margin, to act as a buffer against potential default by one of the parties.