

## Regulator, banks take aim at U.S. Volcker rule

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TORONTO (Reuters) - Canada's financial services regulator and the country's banking sector are pushing back against the Volcker rule, a key plank of U.S. financial reform that they say would unfairly punish Canadian banks that deal closely with the U.S. market.

The rule, a controversial part of the massive 2010 Dodd-Frank financial oversight law, is designed to limit banks from trading with their own funds and to limit investments in hedge funds and private equity firms.

But in a letter delivered to U.S. authorities in December and made public on Friday, Canada's Office of the Superintendent of Financial Institutions (OSFI) said the draft rules would limit Canadian banks' ability to manage their risks and efficiently manage their liquidity.

"OSFI is concerned that the draft regulations may have the unintended consequence of significantly impeding Canadian and other foreign financial institutions' ability to manage their risks in a cost-effective manner," OSFI head Julie Dickson said in the letter.

Dickson said this was a particular problem for Canadian banks, given the extensive links between the U.S. and Canadian financial systems.

"Canadian financial institutions use U.S.-owned infrastructure to conduct financial transactions in support of their market-making activities in Canada, and in their risk management activities more broadly in support of their Canadian and U.S. banking operations," she said.

The Volcker rule would apply to each foreign bank with a branch, agency or subsidiary in the United States. The proposed regulation is currently out for comment until February 13 and is supposed to go into effect this summer.

In a separate letter, the **Canadian Bankers Association**, a lobby group for the country's lenders, also voiced concern with the Volcker rule, saying the regulation's limited exemptions would victimize Canadian banks.

(Reporting By Cameron French; editing by Rob Wilson)