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Davis Polk: Explaining the Volcker Rule in 27 Pages.

Normally, it's not in the nature of law firms to oversimplify complex government regulations for their biggest customers. But Davis Polk & Wardwell LLP has decided to do just that for its mega-banking clients to start off the new year, giving them a handy, color-coded, "user-friendly" flow chart to help them navigate the Volcker rule, which restricts banks from making market bets with their own capital.

How simple? The chart extends over 27 pages.

Take Step 2D-2, on page 11, which describes permitted trading in foreign government securities. There are 13 boxes, diamonds, or circles on the page, (plus eight yes's and eight no's). It notes how the rule impacts foreign affiliates of U.S. banks, but not foreign branches of the banks.

"Everybody is finding it a huge challenge to describe this one," said Margaret Tahyar, a Davis Polk partner who oversaw the drafting of the charts. "It's super hard to summarize."

Intimidating as the chart may be, it reflects the breadth and density of the regulation, which extends for close to 1,000 pages. The Volcker rule is part of the Dodd-Frank Act, a response to the financial crisis that is intended to reduce systemic risks in the banking system. Though the Volcker rule does not take full effect until mid-2015, bankers have been gobbling up information to help guide them to safety. Ms. Tahyar said that a preliminary version of the flow chart that Davis Polk formulated based on proposals was downloaded more than 100,000 times.

But if the chart and its many arrows and red warning boxes seems challenging, Ms. Tahyar has what may be an unwelcome message. "You're looking at half the rule," she said. A flow chart on the second half, about limits on the investments banks may make in hedge funds and other trading firms, is due next week, and it is likely to be longer than the earlier chart.

Download the chart at:

http://www.davispolk.com/download.php?file=sites/default/files/DavisPolk_Final_Volcker_Rule_Flowcharts_Prop_Trading_0.pdf

By James Sterngold

REUTERS