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To: Jes Staley
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In a candid but slightly guarded reply Larry Summers (LS) responded that:

- * the financial reform legislation is 85- 90% certain to be passed through Congress this year (others would be more confident but LS said he would always allow for unforeseen events).
- * the most likely case is that language in the legislation will be nearest to the language used by Senate Banking Committee Chairman Christopher Dodd in the March 15 draft. LS said this would be along the lines of regulators having 6 months to study the appropriateness of restrictions on proprietary trading, at which point these restrictions would come into force.

On being asked by LM whether this would mean "may" or "shall" for federal agencies 'issuing final regulations implementing' the Volcker rule, LS responded that it's 40% along the "may to shall spectrum" - most likely 'should'.

Banks would be restricted to activities they could demonstrate were for a client or customer, but in practice LS only sees this as limiting their activities around the margins. Whilst in name banks would be stopped from engaging in proprietary trading, in practice LS saw banks as and was comfortable with rebranding such activities as services to customers.

Therefore, although LS expects it to be less likely to have banks buying up large hedge funds or getting involved in negative equity, he does not see the reforms being implemented in a way that substantially restrains their proprietary activities. LM and LS were both clear that this would come down to how the legislation is enforced by the regulators and LS assured LM they are very conscious of getting the right regulators in place.

LS said that in practice, he would not envisage big banks being broken up, or prevented from proprietary trading. They may split off some activity into a holding company, but it could all still happen under the same brand and banner - it just may need to re-jig some internal institutional architecture so that proprietary trading would be associated with a client, internal or external.

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