From: Francis X. Stone Esq.

Proposal: 1479 (RIN 7100-AE10) Regulation: Physical Commodities-FHCs (ANPR)

Subject: Physical Commodities-FHCs

Comments:

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Proposal:Regulation: Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies related to Physical Commodities [R-1479]
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Your comment:For several years prior to the 2008 collapse, I bored friends, relatives, business associates with my view that banks and investment banks had grossly overextended themselves in a highly reckless manner,especially given that $56 Trillion in derivative bets had been placed without proper reserves for potential losses. Several weeks ago in a NY Times op-ed piece, former British Prime Minister Brown correctly warned all of us that the current $600 Trillion dollars in derivative bets by banks-which also have little or no reserves-made the potential for collapse even greater than 2008. The size of this unprotected derivatives betting insures that no recovery from the next collapse will be possible. Commodities market involvement by banks adds to the speculative climate of US banks. Most of the futures contracts for precious metals at COMEX and the LME which ripen into delivery requirement for the commodity are met with offers of cash payment in lieu of physical delivery; so, what the banks are doing is engaging in paper contract speculation, not commodity dealing. Banks have turned regularity of commodity supply and demand pricing into a paper distortion of prices which are manipulated for bank gain irrespective of the physical balance of supply and demand in the market. This paper distortion INCREASES the risk to banks because when the physical market reality catches up with real commodity pricing, banks may suffer enormous losses in addition to potential gigantic losses in the derivative markets. There is NO UTILITY for the public, for the commodities markets, or for taxpayers who may be called upon to underwrite bank commodities loss for banks to be allowed to remain active in commodities markets. Commodities are merely another betting platform for banks. In 2008 we saw banks take rescue funds from taxpayers and turn those rescue dollars into bonus payment funds for bank executives. We as a nation must take the tools for extreme risk taking away from banks because they proved in 2008 that they would not prudently restrain themselves when it came to taking risk; and since 2008 they have already placed $600 Trillion in derivative bets which expose the nation to an unnecessary economic collapse. The 2003 Federal Reserve decision to permit bank involvement in the commodities markets must be rescinded to protect all citizens from a potential collapse far worse than 2008. In addition, the Federal Reserve should demand that ALL banks create reserves of at least 60% for all derivative contracts that they involve themselves in. Normal business lending, done in a safe, relative secure systematic fashion should be the principle source of bank income, not derivative bets, nor commodities bets. Bank gambling nearly killed our democracy in 2008, and if US banks remain uncontrolled on derivatives and commodities, our democracy is doomed.