COMMODITY MARKETS OVERSIGHT COALITION

An Alliance of Commodity Derivatives End-Users and Consumers

April 16, 2014

Via Electronic Submission

Mr. Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Advance Notice of Proposed Rulemaking, "Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies related to Physical Commodities," (Docket No. R-1479; RIN 7100-AE10).

Dear Mr. Frierson:

The Commodity Markets Oversight Coalition ("CMOC") appreciates the opportunity to comment on the Advance Notice of Proposed Rulemaking ("ANPR") concerning *Complimentary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies* issued by the Board of Governors of the federal Reserve System ("the Board"). We commend the Board for the careful consideration of input received from market participants and the general public on this issue. Please note that this letter does not preclude the submission of additional comments by CMOC-affiliated organizations or their member companies or individuals.

The CMOC is a non-partisan alliance of agriculture, energy and transportation industry groups and other organizations that represent commodity-dependent American businesses, end-users and consumers. Our members rely on fair, open and competitive commodity markets for the daily operation of their businesses. Since its inception in 2007, our coalition has advocated policies designed to preserve market integrity, promote transparency and prevent fraud and manipulation. We have also encouraged public dialogue and debate on the proper role of the financial services industry in commodities, including derivatives and physical markets. We applaud this rulemaking and for soliciting public input on these matters.

At question here are the amendments to the Bank Holding Act of 1956 and resultant actions by the Board that have allowed Financial Holding Companies ("FHCs") and their subsidiaries to have an increased role in physical commodities, including the energy, agriculture and metals markets. This includes physical commodities activities found to be "complementary to a financial activity" under section 4(k)(1)(B) of the Bank Holding Company Act ("BHC Act"), "investment activity" under section 4(k)(4)(H), and physical commodity activities grandfathered under section 4(o). As stated in the ANPR, the Board is seeking input on "the unique and significant risks that physical commodities activities may pose to financial holding companies, their insured depository institution affiliates, and U.S. financial stability."

Financial institutions including FHCs play an important role in financing of American industry and in the formation of capital that has led to the rise of the United States as the world's preeminent economic superpower. This includes support for commercial businesses and industries that produce, refine, store, transport, market or consume commodities such as crude oil, wheat, cattle and steel. Financial institutions also facilitate the financing necessary to construct, install and repair related infrastructure and in assisting businesses and individuals with

managing risks associated with volatile commodity prices. It is not unreasonable for the Board to acknowledge these important roles played by the finance industry in its deliberations and to ensure that no actions increase systemic risks, severely diminish market liquidity, or otherwise harm bona fide commercial businesses and industries or the broader U.S. economy. Inaction on the part of the Board may be equally harmful, however.

As the Board has noted, recent developments have raised questions about the proper relationship between FHCs and their subsidiaries and the physical commodity markets. This includes allegations of manipulation of the segments of the electricity and metals markets. Some have questioned whether or not financial institutions should be allowed to maintain a considerable presence in the physical commodity markets while also holding speculative financial positions in and publically forecasting price movements of commodities and advising commercial businesses and other clients on related heading strategies. As far as we know, no federal department, agency or commission is currently responsible for monitoring the totality of, or relationship between, these activities and there seems to be little or no public accountability.

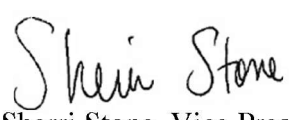
Some also suggest that the rapidly expanding presence of FHCs and their subsidiaries in the physical commodity markets and other purely commercial activities raise questions of competitiveness. Financial institutions enjoy considerable benefits such as access to the Federal Reserve discount window and taxpayer-backed financial safety nets. Commercial businesses and industries do not. Access to "cheap money" and financial programs designed to safeguard against systemic risk, bankruptcy and financial distress (what some might pejoratively refer to as "taxpayer bailouts") could provide certain financial institutions an uncompetitive advantage in commercial markets including in physical energy, agricultural and metals markets.

We are not advising the Board at this time on the extent to which physical commodity activities of FHCs and their subsidiaries should be limited (or prohibited altogether as some suggest). Still, the Board should thoughtfully examine these questions and take action as necessary to safeguard commercial businesses and industries, protect the integrity of the financial system and the broader economy, and close the door to potential market manipulation. We also recommend that the Board examine ways to provide greater transparency and accountability regarding bank holdings in physical commodities and related activities. This should include the disclosure to appropriate government regulators of types of commodities, volumes and storage locations that are owned or leased by FHCs or their subsidiaries.

Thank you again for the opportunity to provide input on this matter.

Sincerely,

Jim Collura, Vice President for Government Affairs
New England Fuel Institute
Co-chair, Commodity Markets Oversight Coalition



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