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

Comments:

Date: Jan 15, 2014

Proposal: Regulation: Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies related to Physical Commodities [R-1479]

Document ID: R-1479

Revision: 1

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Your comment: I am the former Executive Vice President, Chief Financial Officer and member of the Board of Directors of a U.S. recycler and trader of metals. It was well known in consumer (i.e. General Motors' metals purchasing group) and producer (i.e. U.S. Zinc) circles that leading up to the 2008 financial crisis, certain firms placed warrants on certain metals to the extent that the metals were not available for delivery at market prices and at market delivery premia, even though an abundance of physical metal sat available for shipment in LME warehouses. To allow the same firms to own and operate warehouses is detrimental to the economy because of the potential for monopoly control of various metals and its resulting impact on industrial consumers. The Federal Reserve should prevent merchant banks whose primary business is not commodities trading to place warrants on material that exceed its exposure to non-financial, industrial producer or consumer clients. The Federal Reserve should also eliminate the ability of merchant and investment banks to engage in complementary commodities activities, such as owning or operating warehouses. Removing these participants from the market may have short-term impact on market prices and liquidity for certain types of transactions. However, those effects are desirable because of the likely increased availability of metal for industrial consumers and more transparent price discovery for both producers and consumers.