AON

April 8, 2014

Robert deV. Frierson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW.,
Washington, DC 20551

**Re: Advanced Notice of Proposed Rule Making – Federal Reserve System
Docket No 1479 AND RIN 7100 AE-10**

Gentlemen:

This is in reference to Docket No. R-1479 *Complementary Activities, Merchant Banking Activities and Other Activities of Financial Holding Companies related to Physical Commodities (the "ANPR")* and the request for commentary regarding the activities of financial holding companies related to physical commodities.

Aon Risk Solutions would like to offer commentary based on our extensive experience with physical commodity traders, including traders owned, or not owned, by financial holding companies.

Aon is one of the worldwide leaders in Risk Management, Reinsurance Brokerage and Human Resource Consulting. Aon Risk Solutions provides clients of all industry sectors with comprehensive risk management and employee benefits solutions. Aon's Global Marine specialty practice is focused on the exposures and risk solutions for various maritime industry companies and others engaged in shipping of commodities as well as other cargos. Aon represents, as an insurance broker, commodity traders for the variety of financial ownership. Some of these commodity traders are owned by financial holding companies. Aon's perspective offered in this letter deals only with the traditional risks that trading physical commodity activities pose to the owners of those commodities, and how this is mitigated, especially by insurance.

The commodity traders Aon deals with are mainly engaged in the following activities and exposures:

Commodity Trading: The exposures that arise from the trading commodities are mainly:

- Risk of Physical loss or damage to the commodity owned or traded by the commodity trader;
- Risk of liability of the trader to other third party property or bodily injury of persons arising from the characteristics of the commodity owned or traded, in the event the commodity is involved in an accident or incident.
- Risk of liability of the trader to other third party property or liability arising from the trader's chartering of vessels or leasing space in storage tanks.

Robert A. DeMotta
U.S. Practice Leader- Marine
Aon Risk Solutions
199 Water Street – 8th Floor
New York, NY 10038
Tel: 212-441-1085

- Defense and settlement costs associated with litigation brought against owners of commodities.

There is also concern expressed in the Federal Reserve document about the risk that the Financial Holding Company ("FHC") may sustain if there is an uninsured loss, which could then harm the firm and create financial turmoil to its banking customers. In this respect, we will comment as follows:

We are actively involved in designing and placing programs to insure against the risks identified above that are associated with commodities trading activities. Based on our experience in this field, we are of the view that as a practical matter there is little or no risk that a physical loss of owned commodities could be so significantly uninsured as to compromise an FHC. Cargo insurance market capacity is many times greater than the largest anticipated value of commodities in any one loss. Cargo limits are written per conveyance or per location, not simply per occurrence or subject to an annual aggregate. These insurance programs are rated for premium purposes below other cargo or property insurance risks.

The assertion that a large uninsured liability loss may threaten the financial stability of the FHC should be considered as follows:

- The ANPR dwells on the issues of substantial risk from commodity trading activity. The incident which appears to cause the Federal Reserve the most concern is Deepwater Horizon. The assertion of loss was not relevant to commodity house activities: transportation and/or storage of commodities. We believe the concerns about the Deepwater Horizon, and its loss, have little relevance to the exposures engaged in commodity trading.

- The ANPR main liability risk concern is environmental. i.e., an oil spill. However, in practical terms commodity trader risk, mostly, if not 100% involves the transport or storage of commodities. The size of one exposure loss does not come close to the size of exposures in an offshore oil well, such as the Deepwater Horizon loss.

- The Deepwater Horizon spill volume is many times larger than the largest vessel oil spills, or a vessel's capacity.

- Other than the Exxon Valdez loss, none of the losses referred to in the Federal Reserve System Docket involve oil transport on vessels. The Exxon Valdez pollution liabilities fell on the vessel owner/operator.

Robert A. DeMotta
U.S. Practice Leader- Marine
Aon Risk Solutions
199 Water Street – 8th Floor
New York, NY 10038
Tel: 212-441-1085

Most commodities, especially oil, are carried on ocean going vessels and tankers, or large tank barges, which are usually insured by one of the International Group Association of mutual P&I Clubs. Mutual P&I Clubs provide liability insurance for shipowners, which include liability for third party property damage, bodily injury, including arising from pollution. P&I Club limits of liability are, for most losses, several billion dollars and for oil pollution, $1 billion for any one accident or occurrence.

- Since 2005, it is our understanding there have been a total of 61 claims in excess of $25 million on the mutual P&I Club system of which only 12 involve tankers. Of those 12, the largest pollution claim excess of $25 million is the 2007 Hebei Spirit oil spill for approximately $270 million in total. The largest claims on the mutual P&I system in recent years mostly involve bulk carriers or container ships, and the recent cruise vessel loss in Italy was many times larger than the Hebei Spirit

    - Per the ANPR: "The fact that a FHC has not been involved in such an event to date, does not reduce the probability that such an event may occur..." That may be an inaccurate statement as the oil industry and commodity trading charterers, and the P&I Clubs, and regulators, have done much to improve the risk profile for carriage of oil and petroleum products.

Charterer's Liability
Commodity traders charter vessels and own oil on the vessels, or in storage tanks or pipelines. We wish to review these exposures and how the commodity trader manages these risks.

Where a commodity trader charters a vessel, the trader incurs a potential liability if there is an accident with the vessel that is actually ***caused*** by the actions of the charterer, and pursuant to the contract with the vessel owner or operator. In reality, charterers do not operate vessels, and therefore the charterer's risk is limited. The same is also true where the commodity trader leases space in a storage tank or pipeline. The owner of the infrastructure is the operator and in control, rather than the lessee. There are been few if any substantial charter's liability claims. The most significant event involving a charterer is the 1999 oil spill from the 25 year old vessel "Erika" which split in two off the coast of France, which involved a very particular set of facts that would not be relevant for commodity traders such as FHCs.

Robert A. DeMotta
U.S. Practice Leader- Marine
Aon Risk Solutions
199 Water Street – 8th Floor
New York, NY 10038
Tel: 212-441-1085

Total cost of the "Erika" oil spill is $280 million, which was shared across several parties. The charterer TOTAL, shared in the loss due to its failure to adhere to its own policies in the selection of the vessel. That said, since this event, charterers and commodity traders have generally enhanced their vigorous vessel vetting processes. This is especially the case with commodity traders. The vessel vetting criteria generally includes (1) limitations on vessel age; (2) classification (including compliance and safety record verification) by a member of the International Association of Classification Societies (IACS); (3) P&I insurance via a full entry with an International Group P&I Club; (4) additional considerations/ratings per third-party vessel vetting specialists (e.g. RightShip).

It is also worth mentioning that many of the oil spills from the pre-2005 era involved vessels which were of a single hull construction. Single hull construction vessels are being phased out by 2015, and most vessels in use today and chartered by commodity traders are of double hull construction.

Cargo Owners Legal Liability

The second area of potential liability that can arise from commodity traders' activity is through the ownership of oil that is spilled. Under OPA 90 and other regulations, the vessel owner is usually the responsible party for any oil spill out of a vessel. The vessel owner may subrogate against the charterer, but the charterer would only be liable if it caused the accident under a breach of the charter party, which as we've described above is a very limited exposure. Due to the remote risk that a cargo owner is brought into a spill claim, commodity traders usually purchase cargo owners legal liability insurance.

Liability Insurance for Charterers and Cargo Owners

The ANPR suggests in Footnote 39 that the limits in pollution policies fall well below the amount of environmental damages. This assertion is not borne out by our extensive experience in the insurance market. In our experience, commodity traders are quite able to protect their exposures arising from chartering, storing and transporting commodities, as well as, cargo ownership through a liability policy by specialist marine insurance and related markets. This is Charterers liability and cargo owners legal liability insurance policy. While limits purchased may vary, most FHC owned commodity traders in our experience carry a minimum of $500 million of charterers and cargo owners legal liability insurance, and in many cases, between $750 million and $1 billion of coverage. We believe these limits are quite adequate considering the single largest historic chartering incident involving the Erika referenced earlier in our letter. Most of these clients are placing these insurance policies with P&I Clubs under a special fixed entry (rather than mutual) basis. There are many advantages to charterer's liability and cargo owners legal liability policies placed with these P&I Clubs, including broad form coverage arising from sudden & accidental pollution, clean up, and coverage for fines and penalties. The breadth of these policies addresses the concerns expressed in the Federal Reserve document, and counters the assertion that most policies contain exclusions for clean up and other perils.

Robert A. DeMotta
U.S. Practice Leader- Marine
Aon Risk Solutions
199 Water Street – 8th Floor
New York, NY 10038
Tel: 212-441-1085

Another very important advantage is that P&I Clubs offer a very comprehensive and experienced claim service. Because P&I Clubs represent the largest of the vessel transportation companies, they have a very strong and comprehensive network of claims representatives globally to help shipowners and their other clients, including commodity traders, to mitigate a loss while it is happening. So while it is true that no FHC commodity trader has actually been involved in a major oil spill event, those that have coverage with a P&I Club do, in fact, have the benefit of the P&I Clubs' experience in mitigating a loss should such an event occur. Aon's experience is that most insurers, including P&I Clubs, are responsive to claims for liability against their insureds. This is in stark contrast with the concerns expressed in the Federal Reserve document that insureds must commence legal action against their insurers to determine the scope of their insurance coverage.

There are many P&I Clubs now offering Charterer's liability and cargo owners legal liability for commodity traders. These include Gard, UK Club, Standard Club, Steamship Mutual, and others. Liability insurance capacity is between $500 million and $1 billion through these club arrangements, and excess liability from commercial insurers is also available. In recent years, all of these P&I clubs have offered more comprehensive coverage forms, as well as, more competitive premium options. The growth of these insurance products and their increasingly more competitive terms is an indication of the insurance markets opinion that the risks associated with commodity trading activity are low and improving risk profile.

To illustrate how the markets favorably view these liability risks for traders, please note that the typical minimum premium for any type of excess liability risk is $1,000 per million (or 10 basis points per annum) of coverage. These charterers and cargo owners legal liability insurance packages are generally priced below the $1,000 per million benchmark and, in many cases, closer to $250 per million (or 2.5 basis points per annum). In addition, these policies do in fact offer primary layer protection in excess of modest deductibles. The premiums and rates charged by insurers for the liability exposures of commodity traders and charterers is far less than the premiums and rates determined by these insurers for the operators and owners of the vessels, pipelines and storage locations. This reflects the underwriters' view of the limited nature of the risk they are assuming for commodity traders and charterers.

We would also point out that the probability that a trader is held liable for a transportation or storage loss is viewed as low by insurers. However, there is a chance that a commodity trader, may be included in claims against the actual operators of the vessels or terminals as the "deep-pocket" in a transaction. In any event, the policies of insurance we described above respond for any settlements held against the commodity trader as well as defense costs.

We also disagree with the suggestion in the ANPR that a policy beneficiary must litigate the scope of coverage in order to be successful in laying a claim against its policy. In support of this notion the ANPR cites a case in which an energy company sought to recover "climate change injuries" from a general liability policy. While we are not familiar with all of the details of the case, we regard the facts as described as reflecting a novel and perhaps aggressive interpretation of scope of coverage of a general liability policy. Our experience with underwriters is that they are reasonable in their interpretation of coverage scope and pay on claims that fit within such scope.

Robert A. DeMotta
U.S. Practice Leader- Marine
Aon Risk Solutions
199 Water Street – 8th Floor
New York, NY 10038
Tel: 212-441-1085

Summary

In summary, we understand the Federal Reserve's concern about the risks that catastrophic events may have if it is incurred by an FHC. However, we do not believe the activities involved in commodity trading by these FHC's are likely to result in such a catastrophic event due to their risk management efforts and the support they receive from insurance markets and their brokers in designing and purchasing comprehensive and high limit policies of insurance.

Sincerely,

Robert A. DeMotta

Robert A. DeMotta
U.S. Practice Leader- Marine
Aon Risk Solutions
199 Water Street – 8th Floor
New York, NY 10038
Tel: 212-441-1085