Center for Capital Markets Competitiveness

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

Re: Regulations Q and Y; Risk-Based Capital and Other Regulatory Requirements for Activities of Financial Holding Companies Related to Physical Commodities and Risk-Based Capital Requirements for Merchant Banking Investments, Docket No. R-1547, RIN7100 AE58

Dear Mr. Frierson,

The U.S. Chamber of Commerce ("Chamber")[1] created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy. We have commented extensively on proposed rules issued by the Board of Governors of the Federal Reserve (the "Federal Reserve" or the "Board") in the past, with a focus on the impact of these regulations on the ability of non-financial businesses to mitigate short- and long-term risks and raise necessary capital to fund continued operations and growth.[2]

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[1] The Chamber is the world's largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are users, preparers, and auditors of financial information.

[2] *See* June 14, 2011 letter from the Chamber to Federal Reserve Chairman Ben Bernanke on G-SIFI surcharges, October 22, 2012 comment letter to U.S. banking regulators on proposed Basel III regulations, September 19, 2013 letter to the BCBS on the Revised Basel III leverage ratio framework, September 23, 2013 letter to U.S. banking regulators on enhanced supplementary leverage ratio standards, January 31, 2014 letter to U.S. banking regulators on liquidity coverage ratio rules, January 31, 2014 coalition letter to U.S. banking regulators on liquidity coverage ratio rules, May 28, 2014 letter to NCUA on risk based capital, September 11, 2014 letter to Federal Reserve on Capital Plan and Stress test rules, September 19, 2014 letter to Bank of International Settlements on the Net Stable Funding Ratio, letter of February 11, 2016 on Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important

With this context in mind, we write to express our significant disappointment with the Federal Reserve's intention to impose new risk-based capital requirements on certain commodities activities of financial holding companies ("FHC") and their merchant banking investments (the "Proposed Rule"). The proposal will have a deleterious effect upon growth and stability by creating barriers to traditional means of business financing and capital formation. Our concerns are heightened by the lack of an economic analysis that could have explored those financing issues further. The inability to provide an economic analysis as part of Proposed Rule harms the ability of stakeholders to provide informed commentary and hampers the ability of the Federal Reserve to avoid consequences that may be harmful to economic growth and financial stability.

As we have repeatedly noted, the Federal Reserve has not considered the downstream impact on commercial businesses that are longstanding customers of, or commercial counterparties to, FHCs.[3] Even worse, the Federal Reserve has failed to properly justify why such risk-based capital requirements are required, as there has been no clear demonstration of material losses suggested resulting from the commodities trading activities and merchant banking investments at issue.[4]

Ultimately, the Chamber believes that the Federal Reserve is setting a precedent against the ability of FHCs to engage in merchant banking at all, as there is a wildly disproportionate penalization of legitimate merchant banking activity related to

Foreign Banking Organizations, letter of March 21, 2016 to Federal Reserve on Framework for Countercyclical Capital Buffer; and letter of June 3, 2016 to Federal Reserve on single-counterparty credit limits.

[3] *See* Letter of American Gas Association, American Public Gas Association, Electric Power Supply Association, National Rural Electric Cooperative Association, U.S. Chamber of Commerce Center for Capital Markets Competitiveness, U.S. Chamber of Commerce Institute for 21st Century Energy in response to Advance Notice of Proposed Rulemaking, Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies related to Physical Commodities (Docket No. 1479, RIN 7100 AE-10), *available at* http://www.centerforcapitalmarkets.com/wp-content/uploads/2013/08/2014-4.3-Fed-ANPR-Letter.pdf; Letter of David Hirschmann and Karen A. Harbert, U.S. Chamber of Commerce Center for Capital Markets Competitiveness and U.S. Chamber of Commerce Institute for 21st Century Energy, in response to Advance Notice of Proposed Rulemaking, Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies related to Physical Commodities (Docket No. 1479, RIN 7100 AE-10), *available at* http://www.energyxxi.org/sites/default/files/2014%204.16%20Chamber%20Comment%20Letter%20on%20Fed%20ANPR.pdf; *see also* Letter to Federal Reserve Chairman Bernanke on behalf of various stakeholders, *available at* http://www.centerforcapitalmarkets.com/wp-content/uploads/2014/02/2013-10.1-Letter-to-Bernanke.pdf?x48633.

[4] *See* Letter from Tom Quaadman to Scott Alvarez, Section 620 Report on Bank Investment Activities (Sep. 19, 2016), *available at* http://www.centerforcapitalmarkets.com/wp-content/uploads/2016/09/2016-9.19-Sec-620-Fed-Letter.pdf (hereinafter, the "Chamber Section 620 Report Letter")

commodity-related activities in the Proposed Rule. This effectively permits the Federal Reserve to second guess Congress' decision to permit FHCs to engage in merchant banking at all. Indeed, the Federal Reserve has already directly recommended that Congress statutorily eliminate the merchant banking authority and certain commodities activities of FHCs pursuant to a report required under Section 620 (the "Section 620 Report") of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank" Act).[5] We believe that the Proposed Rule's risk-weights have the practical effect of implementing the Federal Reserve's recommendations—which directly contradict Congress' grant of such authorities under the Bank Holding Company Act of 1956 ("BHC Act").

We therefore believe that the Federal Reserve should withdraw the Proposed Rule and conduct further analysis on the impact on commercial end users of increased risk-weights imposed on merchant banking and certain commodity-related activities of FHCs. Doing so would respect the clear language of the BHC Act permitting FHCs to engage in such activities, which was not amended by the Dodd-Frank Act.

In the absence of such withdrawal, the Chamber believes that the Federal Reserve should retain the existing risk-based capital rules applicable to merchant banking activities under Section 4(k) of the BHC Act and revisit its proposed treatment of commodities activities under Sections 4(o) and 4(k) of the BHC Act. We elaborate upon our concerns in further detail below.

I. The Importance of Merchant Banking and Liquid Commodity Markets

The use of physical commodities and commodity-based derivatives is crucial to end users, which engage in multiple transactions in the physical commodity and commodity derivative markets on a daily basis. Many aspects of the Proposed Rule will have unintended consequences on investment in these sectors and end users' ability to efficiently and effectively manage risk.

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[5] *See* Pg. 28, Report to the Congress and the Financial Stability Oversight Council Pursuant to Section 620 of the Dodd-Frank Act, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Deposit Insurance Corporation, Sept. 2016, *available at* https://www.occ.gov/news-issuances/news-releases/2016/nr-ia-2016-107a.pdf.

New restrictions on the commodity activities of FHCs and their affiliates will artificially restrict competition in, and sap innovation and creativity from, these markets. Indeed, many banking organizations are already beginning to leave these markets, and their roles as market-makers have not been readily replaced.[6] Moreover, risk-reduction in these markets contributes significantly to the continued growth of end-users, as well as the health and stability of the real world economy, which contributes to continued growth, additional jobs, and the success of Main Street America. Reduced competition will result in lessened market liquidity and higher prices for the commodities and commodity-related products on which end-users depend, hampering the ability to compete and threatening higher prices for end-user customers.

We believe that it is important to note that end users rely on the use of physical commodities and commodity-linked derivatives to serve their customers efficiently. These often help end users guard against fluctuations in spot prices and mitigate several other risks, including basis risk. As a result, FHCs and their affiliates provide access to physical commodities and risk-mitigation strategies in a stable and effective manner. The Proposed Rule should be considered in this context and its ultimate impact on end users and their use of physical commodities and commodity-linked derivatives.

Finally, the Chamber is very concerned that the Proposed Rule's treatment of merchant banking. Broadly, merchant banking is an important source of financing for businesses of all sizes, and in activities as important as capital raising, underwriting, and financing for start-ups and expansions.

II. The Proposed Rule Contradicts the Gramm-Leach-Bliley Act and Congressional Intent

The Proposed Rule contradicts the Gramm-Leach-Bliley Act ("GLBA") amendments to the BHC Act, runs contrary to Congressional intent, and is a regulatory "fix" to an overstated perceived market risk. Section 4(o) of the BHC Act is an explicit grant of legal authority that recognizes the critical role tht certain institutions play in the commodity markets as intermediaries, while Section 4(k) of the

[6] *See* Catherine Ngai and Olivia Oran, Barclays' exit from energy trading stirs concerns over liquidity, Reuters, Dec. 6, 2016, *available at* http://www.reuters.com/article/us-usa-oil-barclays-bk-idUSKBN13U2MW.

BHC Act was added because financial markets change over time and Congress believed that FHCs should be able to participate in new financial markets. As a result, both Section 4(o) and Section 4(k) authority should be interpreted to facilitate the efficient functioning of commodity markets and the efficient exchange of risk.

In particular, the risk weighting changes made to Section 4(o) and the new Section 4(k) thresholds will immediately steer FHCs away from physical commodities activities upon finalization.

Section 4(o) Risk Weighting

The punitive risk weighting assigned by the Board to physical commodities held by FHCs under Section 4(o) authority is unwarranted and unjustified. As the Board notes, the 1,250% risk weighting is the highest risk weight currently specified under the standardized approach and is typically reserved to items where an FHC cannot demonstrate a comprehensive understanding of the potential losses that could result, such as a default on the securitization.

Such risk weightings are particularly unjustified because the Federal Reserve itself cannot provide evidence of material loss resulting from such activities. Indeed, when the Federal Reserve released its Section 620 Report in September, Federal Reserve Governor Dan Tarullo noted that:

> [T]hird, this is not an easy sort of thing for financial supervisors to oversee, making a judgment as to the safety and soundness of nonfinancial businesses that may be held in both geographic and corporate distance from the main operations of the firm. So our sense is that the benefits of this to the economy have been outweighed by the potential risks. **And while it is true that to date we haven't seen one of these risks mature into an actual substantial loss, I think if there's a lesson from the crisis, it's that we should be trying to get ahead of potential risks and not waiting for disaster to befall us...**"[7] (emphasis added)

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[7] Interview with Steve Liesman and Federal Reserve Governor Dan Tarullo, CNBC, September 9, 2016.

However, the Proposed Rule makes no attempt to compare the risks correlated with a 1,250% capital charge with the potential risks it identified in the Proposed Rule.

Moreover, as the Board itself notes, FHC involvement in physical commodities has declined since the financial crisis and, resultantly, the systemic risks that the Proposed Rule assumes may arise from these activities do not appear to reflect market realities. Instead, the Proposed Rule appears to be a punitive measure designed to push still more FHCs out of the market. By requiring FHCs that rely on Section 4(o) to reduce their activities, the Board penalizes FHCs as well as end-users that rely on those FHCs' real-world intermediary functions.

Section 4(k) Thresholds

If the Proposed Rule is finalized without change, FHCs relying on Section 4(o) will likely need to rely on other statutory exemptions provided under Section 4(k) in order to continue to hold physical commodities. The Proposed Rule, however, does not afford any regulatory relief in this regard and, instead, imposes new restrictions. Under the National Bank Act, an FHC's national bank subsidiary can hold physical commodities in amount equal to 5% of its total notional value of its derivatives in that particular commodity, and this has traditionally not counted toward the 5% of Tier 1 capital that the Board has imposed under Section 4(k). The Proposed Rule would change this and count such national bank holdings. For some FHCs, this could result in a significant reduction in the amount of physically settled derivatives it could enter into, thus reducing end-user access to competitive transaction pricing.

Merchant Banking Concerns

As noted above, new restrictions on Section 4(k) will limit the availability of merchant banking as a tool for FHCs to engage in permissible activities under the BHC Act. We strongly believe that statements from the Federal Reserve and justification provided in the Proposed Rule explicitly acknowledge that a hypothetical, unrealized risk somehow outweighs the real and demonstrable benefits of merchant banking. Furthermore, there is an acknowledgement that the Federal Reserve has a lack of understanding of the safety and soundness of non-financial businesses, including attendant regulations applicable to them under various environmental laws covering commodities at issue in the Proposed Rule. Therefore, it would appear that the Proposed Rule and its conclusions are arbitrary and capricious and fail to take into account factors that can damage the overall economy.

Instead, we believe that what is needed is a thorough understanding of how businesses rely on the merchant banking and commodities related activities of FHCs, and how a potential repeal of either authority would impact their businesses. Repealing merchant banking authority presents an even larger set of concerns for businesses of all types—including pension plans, endowments, charitable organizations, and similar institutions—that have been able to grow due to access to these investment sources. This will have a further destabilizing impact on the business development and expansion. This is a serious issue for the stability and continued growth of the economy as we have witnessed a decline of over 50% in the number of public companies in the United States over the past 20 years. As we have highlighted above, repealing the ability of FHCs to transact in the physical commodities markets could negatively impact non-financial companies' ability to access efficient, transparent, liquid markets for managing their day-to-day physical commodity and related hedging needs.

Finally, we believe that the potential costs of allowing FHCs to engage in these activities are remote and, at times, theoretical, meaning that the supposed benefit of their "repeal" is strongly outweighed by the benefit of continued access to these services. The Proposed Rule and the Section 620 Report discuss the need to safeguard the safety and soundness of the banking system in these circumstances by highlighting a hypothetical scenario in which legal risks could possibly arise to a FHC if one of its affiliates' corporate structures were "pierced." To date, there are no such examples of such "corporate veil piercing" actually occurring in the context of an FHC. In stark contrast, many commenters to the ANPR noted how remote this possibility actually was. Consequently, we fail to see how the Federal Reserve justifies its effective repeal of merchant banking authority and commodities activities of FHCs through the Section 620 Report or the Proposed Rule on the basis of theoretical scenarios, which have been heavily criticized through the ANPR process.[8]

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[8] We also note that the Federal Reserve draws an inappropriate reference to such legal liability arising under merchant banking authority, essentially arguing that such risks are present in every merchant banking investment. This is patently incorrect, as the merchant banking authority conferred by the BHC Act permits financial holding companies to invest in a range of portfolio companies, all of which do not have the same investment or risk profile. We also note that, because merchant banking is by nature *idiosyncratic*, and not *systematic*, it is difficult to consider a scenario in which such investing

III. The Proposed Rule Threatens Increased Risks and Costs for End-Users and the Financial Markets

End-users of commodities derivatives rely on sophisticated counterparties that understand unique commercial risks. The size and stability of FHCs, coupled with their ability to deal in physical commodities, offer economies of scale that allow for highly tailored and affordable derivatives products. The Proposed Rule would undermine such synergies through its Section 4(o) and Section 4(k) changes and add additional challenges to companies that serve the real world economy.

We are concerned that, especially in the markets for customized commodity products, a retreat by FHC affiliates will lead to greater market illiquidity and higher prices. To the detriment of end-users, these FHCs would not be able to maintain their critical intermediary roles in the commodities markets. The lack of competition—with a resulting concentration of risk—would almost assuredly increase costs for end-users as they search for new intermediaries with which to transact.

Moreover, market liquidity would suffer because FHC affiliates are frequently the most knowledgeable participants and the most willing to enter into customized trades, and there are few potential new market entrants who can replace them, especially because certain products essential to end-user operations are generally only available from banks. Additionally, reducing the number of market participants threatens higher prices, as end-users will have fewer firms from which to request price quotations. This will, of course, cause our overall financial performance to suffer.

In addition, the lack of true competition may lead to higher prices for the physical commodities and higher overall costs for our commodity-based derivatives transactions. End-users and their customers will be harmed by these higher market prices, and more capital will be required to be allocated to paying the remaining market participants for needed products and services, and not more efficient purposes such as investing in business infrastructure. Restricting the ability of FHCs to engage in physical commodity activities, therefore, likely would produce "decreased or unfair competition," and an "undue concentration of resources" in the remaining

poses a risk to the safety and soundness of the American financial system at large, rather than the failure of one investment.

participants in the commodities markets, and thereby result in a loss of market efficiency.[9]

IV. Comprehensive Review of Initiatives Impacting Business Capital Formation Needed

Given the several serious issues with the Proposed Rule, which may have the real effect of limiting access to risk mitigation tools and raising capital, we underscore the need to undertake a comprehensive study of various regulatory initiatives as well as the impacts of those initiatives on the broader global economy and the capital formation system that is the linchpin for growth. A review of the initiatives impacting business capital formation illustrates:

- The Leverage Ratio Framework materially increases the minimum capital requirement by product relative to Basel III. Additionally, the Leverage Ratio Framework and the proposed Net Stable Funding Ratio penalizes many low-risk activities that may harm the ability of non-financial businesses to access markets to prudently mitigate risk or manage cash and liquidity;

- The Liquidity Coverage Ratio creates disincentives for financial institutions to offer certain products and services to businesses even though those activities were not the cause of the financial crisis;

- G-SIB Capital Surcharges will force large internationally active banks to withdraw additional capital from productive capital formation streams;

- The complex regulatory regimes envisioned by the final Volcker Rule, and the proposed Vickers and Bank Structural Reform rules, are expected to impact the ability of non-financial businesses to enter the

[9] Under Section 4(k) of the BHC Act, the Board, in determining whether an activity is complementary to a financial activity, is to determine whether performance of the activity by the FHC may reasonably be expected to produce public benefits, "such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or risk to the stability of the U.S. banking or financial system." 12 U.S.C. § 1843(j)(2).

debt and equity markets by raising costs and creating barriers of entry to the capital markets;

- Money Market Fund reforms will harm the ability of non-financial businesses to access the short-term commercial paper markets and manage cash;

- If the Volcker, Vickers and Bank Structural Reform, and Money Market Fund reforms hamper capital formation, the next alternatives are commercial lines of credit; however, Basel III creates disincentives for banks to provide businesses with commercial lines of credit;

- The TLAC proposal will immobilize billions of dollars' worth of capital through its long-term debt requirements while requiring banks to hold many multiples of the capital needed in several of the Federal Reserve's stress testing scenarios;

- The Countercyclical Capital Buffer requirement requires G-SIBs to raise an additional cash buffer when the Board believes there is excess credit growth in a particular sector of the economy, which has already sidelined productive capital;

- The Single Counterparty Credit Limit rules may significantly curtail lending to small and mid-size businesses given the operational difficulty of aggregating counterparty exposures as envisioned by the Board. The proposal may also impact the health of the securitization markets through its various "look through" requirements without a readily apparent benefit to financial stability; and

- The Net Stable Funding Ratio will result in higher short-term funding costs for Main Street companies, particularly as a result of its derivatives payables "add-on" charge and treatment of corporate debt.[10]

[10] This list is by no means an exhaustive list of regulations and capital initiatives that should be reviewed with such a study. This list is illustrative of the types of initiatives that should be studied.

The combination of all of these initiatives could lead to an underperforming financial sector and create barriers to capital formation. The inability of businesses to be able to engage in normal capital formation activities, efficient cash management and effective risk management will raise costs and create inefficiencies, adversely impacting economic growth and financial stability.

Therefore, we believe that the Federal Reserve should conduct a comprehensive study to determine: (1) how all of these initiatives will interact and work together; (2) determine the impacts of these initiatives upon the broader macro-economy; and (3) use modeling techniques to "war-game" these new regulatory structures identify faults and shape comprehensive fixes. This information will be invaluable to the finalization of the Proposed Rule and would help mitigate potential unintended consequences with the other initiatives discussed above.

Additionally, the Federal Reserve is subject to the Regulatory Flexibility Act ("RFA") and the Paperwork Reduction Act ("PRA"). The RFA requires assessment of the economic effect of regulations on small business and consideration of less burdensome alternatives. The PRA requires assessment of the paperwork burden on small entities and ways to reduce or mitigate it.

The Federal Reserve must also comply with the Small Business Regulatory Enforcement Fairness Act ("SBREFA"). Among other things, the portion of SBREFA known as the Congressional Review Act states that rulemaking agencies must submit to GAO, and make available to each house of Congress, "a complete copy" of any cost-benefit analysis prepared for a final rule for which such an analysis is performed.[11]

The Federal Reserve is also subject to Riegle Community Development and Regulatory Improvement Act ("Riegle Act," 12 U.S.C. §4802(a)). The Riegle Act mandates that "[i]n determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions, each Federal banking agency shall consider, consistent with the principles of safety and soundness and the public interest—(1) any administrative burdens that such regulations would place on

[11] 5 U.S.C. 801(a)(1)(b)(i))

depository institutions, including small depository institutions and customers of depository institutions; and (2) the benefits of such regulations."

Although the Federal Reserve is an independent agency, it has also avowed that it will seek to abide by Executive Order 13563. The Federal Reserve recently stated that it "continues to believe that [its] regulatory efforts should be designed to minimize regulatory burden consistent with the effective implementation of [its] statutory responsibilities."[12] As recently as October 24, 2011, the Federal Reserve wrote a letter to the Government Accountability Office acknowledging the need to engage in a cost-benefit analysis and asserting that the Federal Reserve's use of such an analysis, since 1979,[13] has mirrored the provisions of regulatory reform as articulated in Executive Order 13563.[14]

The CCMC strongly recommends that the Federal Reserve establish a baseline for cost-benefit and economic analysis using the blueprint established by Executive Orders 13563 and 13579, in addition to other requirements they must follow.[15] Doing so would allow meaningful, cumulative analysis that would result in a more coherent final rule with fewer harmful, unintended consequences for the American economy.

Executive Order 13563 places upon agencies the requirement, when promulgating rules to:

1) Propose or adopt a regulation only upon a reasoned determination that its benefits justify its costs (recognizing that some benefits and costs are difficult to justify);

2) Tailor regulations to impose the least burden on society, consistent with obtaining regulatory objectives, taking into account, among other things, and to the extent practicable, the costs of cumulative regulations;

[12] November 8, 2011, letter from Chairman Ben Bernanke to OIRA Administrator Cass Sunstein.
[13] Board of Governors of the Federal Reserve System, Statement of Policy Regarding Expanded Rulemaking procedures, 44 Fed. Reg. 3957 (1979)
[14] *See* letter from Scott Alvarez, General Counsel of the Federal Reserve, to Nicole Clowers, Director of Financial Markets and Community Investment of the General Accountability Office.
[15] Executive Order 13579 requests that independent agencies follow the requirements of Executive Order 13563.

3) Select, in choosing among alternative regulatory approaches, those approaches that maximize net benefits (including potential economic, environmental, public health and safety and other advantages; distributive impacts; and equity);

4) To the extent feasible, specify performance objectives, rather than specifying the behavior or manner of compliance that regulated entities must adopt; and

5) Identify and assess available alternatives to direct regulation, including providing economic incentives to encourage the desired behavior, such as user fees or marketable permits, or providing information upon which choices can be made to the public.[16]

Additionally, Executive Order 13563 states that "[i]n applying these principles, each agency is directed to use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible."

Conducting the rulemaking and its economic analysis under this unifying set of principles will facilitate a better understanding of the rulemaking and its impact and give stakeholders a better opportunity to provide regulators with informed comments and information.

Moreover, we strongly believe that the failure to consider the economic impacts of the Proposed Rule on end-users would have been easily avoided if the Federal Reserve had adopted the reforms listed in our ***Federal Reserve Reform: Securing Regulatory Transparency and Accountability*** report.

For example, if the Federal Reserve had adopted a strategic plan subject to notice and comment, the public would have had an opportunity to provide meaningful input in advance of the Section 620 Report and the Proposed Rule. Many other federal financial regulators release such plans, and we see no reason why the Federal Reserve should be exempt from such requirements.

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[16] Executive Order 13563

Our recommendation on publishing economic analyses subject to notice and comment for rulemaking is equally applicable to the Proposed Rule. Our Federal Reserve Reform report states that the Federal Reserve should, at the very least, identify the benefits and costs of its proposed policy changes.

Finally, our recommendation regarding holding public meetings to consider regulations and other agreements is equally applicable to the Proposed Rule. Aside from the release of the Section 620 Report only weeks before the Proposed Rule, to our knowledge, there were no public meetings or opportunities for stakeholder input in the development of the Proposed Rule. The Federal Reserve may have benefited from more discussion with financial holding companies and other stakeholders about these activities, and thus developed a more robust Proposed Rule, had it asked those entities about their risk mitigation activities.

V. Conclusion

For the foregoing reasons, imposing additional restrictions or limitations on the physical commodity activities of FHCs and their affiliates would be extremely harmful. Consequently, we urge the Board to withdraw its current rulemaking and conduct further analysis on the impact on commercial end users of increased risk-weights imposed on merchant banking and other commodity-related activities of FHCs

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We thank you for your consideration of these comments and would be happy to discuss these issues further with appropriate staff.

Sincerely,

Tom Quaadman