

**Meeting Between Federal Reserve Bank Staff  
and Representatives of BOK Financial Corporation (“BOK FC”)  
On February 9, 2011**

**Participants:** President Tom Hoenig, Esther George and Jim Wilkinson  
(Federal Reserve Bank of Kansas City)

Stanley Lybarger and Stacy Kymes (BOK FC) and Steve Walton  
(Fredrick Dorwart)

**Summary:** Representatives of BOK FC met with officials of the Federal Reserve Bank of Kansas City (“Reserve Bank”) to discuss certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“DFA”). BOK FC is a \$24 billion regional banking organization, with a significant volume of its lending business extended to energy and agricultural production and wholesale businesses. BOKF, N.A. (“BOK”), BOK FC’s lead bank subsidiary, engages in commodities derivatives transactions with certain loan customers to allow them to hedge future price changes related to the customer’s production or wholesaling activities involving crude oil, natural gas and agricultural crops. These derivatives transactions are provided only in relation to credit extensions to bank customers. By helping the borrower control commodity price risk, BOK reduces the risk of borrower default. When BOK FC engages in a derivatives transaction with a customer, the transaction is immediately off-set using a mirrored transaction with an established third-party swap dealer offering commodity contracts. Thus, BOK undertakes these transactions as a “riskless principal,” ensuring that BOK does not take on any commodity price risk. Riskless principal transactions have long been a permissible activity for national banks.

BOK FC’s interest in meeting with the Reserve Bank was to express concern regarding proposed rules issued by the Commodity Futures Exchange Commission (“CFTC”) that define the term “swap dealer” and other terms in the DFA.<sup>1</sup> Under Section 716 of the DFA, swap dealers and other swap entities are not eligible for certain Federal assistance, including FDIC deposit insurance and access to the Federal Reserve’s discount window.

During the meeting, the BOK FC representatives noted that they believe that their current derivatives activities do not require BOK FC to register as a swap dealer under the CFTC’s proposed rules. However, they are concerned that the proposed language is sufficiently ambiguous and unclear that there is a risk that BOK FC could be designated as a swap dealer. Given the severe consequences under Section 716, BOK FC would not undertake the riskless principal activities in BOK. The alternative would be to set up a subsidiary that would register as a swap dealer. Setting up a derivatives subsidiary would be expensive for BOK and more difficult for banking regulators to examine. The effect of the CFTC’s rule would be to move a bank-permissible activity out of the bank and impose significant additional costs and other burdens on BOK and its banking regulators. If these costs keep BOK from offering the hedging

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<sup>1</sup> The proposed rule was printed in the Federal Register on December 21, 2010, volume 75, number 244, pages 80174-80218. Comments on the proposed rule are due by February 22, 2011.

services to its loan customers, BOK's risks would increase—even if the customer goes to a swaps dealer for the derivatives.

BOK FC sent a comment letter to CFTC (a copy of the letter is attached), and BOK FC representatives recently met with CFTC staff.<sup>2</sup> BOK FC suggested adding a provision to the proposed rules that would specifically exempt activities involving riskless principal swap transactions when defining swap dealers. BOK FC's letter included suggested legal language to implement the exemption. According to BOKF, CFTC staff reviewed the proposal and was, in general, supportive of riskless principal activities, although they did not offer any support for BOK's proposal. In concluding the meeting, Reserve Bank noted that the CFTC has responsibility for rule writing and associated guidance in this area.

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<sup>2</sup> If the customer does not hedge, it is exposed to the commodity price risk. If it does enter into swaps transactions, BOK cannot monitor the transactions to ensure the customer is not entering into additional, speculative swaps.



Bank of Oklahoma Tower  
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Stanley A. Lybarger  
President & CEO

January 31, 2011

Mr. David A. Stawick, Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, NW  
Washington, DC 20581

Ms. Elizabeth M. Murphy, Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-0609

*Re: Further Definition of "Swap Dealer," "Security-Based Swap Dealer," "Major Swap Participant," "Major Security-Based Swap Participant" and "Eligible Contract Participant"; Proposed Rule (File No. S7-39-10)*

Dear Ms. Murphy and Mr. Stawick:

BOKF, National Association ("*BOK*")<sup>1</sup>, submits these comments in response to Release No. 34-63452 (the "*NOPR*"), in which the Securities and Exchange Commission (the "*SEC*") and the Commodity Futures Exchange Commission (the "*CFTC*"), in consultation with the Board of Governors of the Federal Reserve System (the "*Federal Reserve*"), issued proposed rules and interpretive guidance under the Commodity Exchange Act, 7 U.S.C. 1 *et seq.* (the "*CEA*"), and the Securities Exchange Act of 1934, 15 U.S.C. 78a *et seq.* to further define the terms "swap dealer," "security-based swap dealer," "major swap participant," "major security-based swap participant," and "eligible contract participant," which terms were added to or modified for purposes of the foregoing statutes by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Dodd-Frank Act*").<sup>2</sup>

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<sup>1</sup> BOK is a national bank and wholly-owned subsidiary of BOK Financial Corporation, a \$24 billion regional financial holding company. BOK has full-service banks located in eight states: Oklahoma, Texas, Arkansas, Missouri, Kansas, Colorado, New Mexico and Arizona, and provides riskless principal derivatives transactional services primarily to small- and medium-sized agricultural and energy producers in its eight-state service area.

<sup>2</sup> Public Law 111-203, 124 Stat. 1376 (2010).



BOK welcomes the opportunity to provide our comments on the “swap dealer” definitional elements of the NOPR.<sup>3</sup> In summary, BOK currently engages in customer-driven, bank-permissible riskless principal derivatives transactions. In our view this conduct does not constitute BOK a “swap dealer” as that term is defined in the Dodd-Frank Act and as proposed to be defined in the NOPR<sup>4</sup>. We believe, however, that the definition of the term “swap dealer” in the Act and the proposed rule, coupled with the related interpretive guidance proposed in the NOPR, do not make the foregoing conclusion sufficiently clear in light of the potential devastating impact to an insured depository institution such as BOK were it to be found to be a “swap dealer.”

Accordingly, we request that the CFTC and the SEC modify proposed definition of “swap dealer” contained in the NOPR, modify their interpretive guidance regarding this proposed definition, or both, to make it unambiguously clear that an insured depository institution does not become a “swap dealer” as a result of its engaging in customer-driven, bank-permissible, riskless principal derivatives transactions. To be specific, we request that the CFTC and the SEC modify proposed Rule 1.3(ppp), *Definitions—Swap Dealer* as follows (proposed changes to the draft rule are italicized):

(2) Exceptions. The term “swap dealer” does not include a person that--

- (a) enters into swaps for such person’s own account, either individually or in a fiduciary capacity, but not as part of regular business; or
- (b) *is an insured depository institution that enters into swaps in customer-driven transactions permitted by its Prudential Regulator and wholly offsets the commodity and market risks of such transactions through risk mitigation activities permitted under 15 U.S.C. §8305 [Section 716(d)(1) of the Dodd-Frank Act].*

### **Customer-Driven, Bank-Permissible Riskless Principal Derivatives Transactions**

BOK currently regularly engages in derivatives transactions with its customers on a “riskless principal” basis. These transactions involve two related trades. In the first trade, BOK transacts as a counterparty with its customer; in the second trade, BOK places a trade through an established channel (an exchange, board of trade or over-the-counter) that “mirrors” the trade with the customer. When the trades are combined they represent a transaction in which BOK has taken no incremental market or commodity risk. To the extent its trade with its customer creates a gain for the customer, it has a corresponding gain on the “mirror” trade it placed with the

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<sup>3</sup> BOK’s riskless principal derivatives transactional activities consist solely of transactions involving non-security-based derivatives. Accordingly, our comments are directed solely at the “swap dealer” definition included by the Dodd-Frank Act in the CEA.

<sup>4</sup> Proposed Rule 1.3(ppp), *Definitions: Swap Dealer*.



market. Upon the completion of both legs of a riskless principal derivatives transaction, BOK is taking only a credit risk with respect to the transaction, which is the sort of risk that banks are expert at taking, and with respect to which they are subject to comprehensive regulation by federal bank regulators.

For example, say a BOK farming customer needs to hedge its risk regarding the pricing of wheat. It enters into a derivatives trade with BOK, which in turn immediately effects a corresponding trade as principal on the Chicago Board of Trade or another agricultural commodities exchange. The net result of the two trades is that (a) the client has achieved its objective of hedging its risk, without the need to establish a trading account on a Chicago or New York exchange or board of trade, and (b) BOK has facilitated its customer's need with no net commodity exposure to the bank.

BOK conservatively limits its riskless principal derivatives transactions. All trades are customer-driven; none are proposed or originated by BOK. To ensure the immediate completion of the second leg of each riskless principal trade, BOK will only accept a customer-proposed trade if it has made advance arrangements to complete the market-facing mirror of the trade. To ensure this, trading is limited to derivatives for which there is an established, liquid market on an exchange or board of trade or for which BOK has obtained an advance binding commitment from a market maker with which BOK has a master netting agreement in place. And BOK, in accordance with applicable regulations issued by the United States Office of the Comptroller of the Currency (the "OCC"), has in place a comprehensive risk management, risk identification and compliance program for its riskless principal derivative transaction activities; this program is regularly reviewed by the Examiner-In-Charge assigned to BOK by the OCC.

BOK's riskless principal derivatives transactions are permitted under long-standing powers granted to banks and banking holding companies under federal banking statutes and regulations. Pursuant to the authority granted under the National Bank Act,<sup>5</sup> the OCC has for decades permitted national banks to:

"... advise, structure, arrange, and execute transactions, as agent or principal, in connection with interest rate, basis rate, currency, currency coupon, and cash-settled commodity, commodity price index, equity and equity index swaps, and other related derivative products, such as caps, collars, floors, swaptions, forward rate agreements, and other similar products commonly known as derivatives. National banks may arrange matched swaps or enter into unmatched swaps on an individual or portfolio basis and may offset unmatched positions with exchange-traded futures and options contracts or over-the-counter cash-settled options."<sup>6</sup>

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<sup>5</sup> 12 U.S.C. 24 (Seventh).

<sup>6</sup> OCC Publication, *Permissible Activities for National Banks* at 54 (April 2010); See also OCC Interpretive Letter No. 725, reprinted in [1995-1996 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶81,040 (May 10, 1996). See also OCC Interpretive Letter No. 1071, 2006 WL 490641 (September 6, 2006); OCC Interpretive Letter 1026, 2005 WL 1939863 (April 27, 2005); OCC Interpretive Letter No. 626, reprinted in Fed. Banking L. Rep. 83,508 (July 7, 1993); and OCC No-Objection Letter No. 90-1 (February 16, 1990), reprinted in Fed. Banking L. Rep. (CCH) 83,095 (bank acting as riskless principal in



Likewise, the United States Federal Reserve Board (the “*Federal Reserve*”) has long permitted bank and financial holding companies to provide—

“customers as agent transactional services with respect to swaps and similar transactions, ... and any other transaction involving a forward contract, option, futures, option on a futures or similar contract (whether traded on an exchange or not) relating to a commodity that is traded on an exchange.”<sup>7</sup>

Regulation Y goes on specifically to authorize bank and financial holding companies to provide agency transactional services to customers for, among other things, derivative transactions and to engage in riskless principal transactions with customers—i.e., “to the extent of engaging in a transaction in which the company, after receiving an order to buy (or sell) a security from a customer, purchases (or sells) the security for its own account to offset a contemporaneous sale to (or purchase from) the customer.”<sup>8</sup>

National banks have been authorized to engage in riskless principal derivatives transactions for decades;<sup>9</sup> this is not an activity that arose after adoption of the Commodities Futures Modernization Act of 2000. Likewise relevant is the fact that BOK has experienced no commodity or market losses on its riskless principal derivatives transactions, whether during the financial meltdown of 2008 or otherwise.

The reasons the Federal Reserve and the OCC have for decades permitted banks to engage in customer-driven riskless principal derivatives transactions are clear:

- (1) These transactions facilitate banking customers’ reducing their market risk, which reduces the bank’s risk with respect to loan performance by these customers.
- (2) These transactions are incidental to the provision of core banking services.

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commodity index swaps); OCC Interpretive Letter No. 371, 1986 WL 85084 (June 13, 1986) (riskless principal transactions are permissible for national banks and their subsidiaries); OCC Handbook, *Risk Management of Financial Derivatives* (January 1997) (“*OCC Derivatives Handbook*”); OCC Banking Circular No. 277, reprinted in 5 Fed. Banking L. Rep. 62-152 (“BC-277”). Approval of these transactions is subject to compliance by the member bank with the requirements of the OCC Derivatives Handbook and BC-277, which, among other things, requires the bank to have in place an effective risk management process including appropriate oversight and supervision, managerial and staff expertise, comprehensive policies and operating procedures, risk identification, measurement and management information systems, and effective risk control functions that oversee and ensure the continuing appropriateness of the risk management process. The OCC has regularly found, in its periodic examinations of BOK, that these standards are met by BOK.

<sup>7</sup> 12 C.F.R. §225.28(b)(7)(“*Regulation Y*”).

<sup>8</sup> Regulation Y, at (b)(7)(ii).

<sup>9</sup> See, e.g., OCC Non-Objection Letter No. 87-5, reprinted in [1986-87 Transfer Binder] Fed. Banking L. Rep. ¶84,034 (July 20, 1987).



(3) These transactions provide customers a needed mechanism for effecting trades without the necessity of creating relationships with a futures commission merchant or a broker on boards of trade or exchanges located far from the customer.

(4) These transactions do not create incremental risk for the bank placing the trades as a result of the bank's contemporaneous offsetting trade. As a result of the mirror trade with the market, the bank takes no commodity or market risk. The only risk it takes is a credit risk, which is of course the precise type of risk that banks are designed to take, and are expert at evaluating.<sup>10</sup>

(5) These transactions do not involve either speculation or proprietary trading by the bank.<sup>11</sup> *Indeed, they reduce risk to the bank and the customer.* BOK's riskless principal trades allow customers to manage the price risk of their agricultural and energy commodities without tying up liquidity or operating lines. This renders customer cash flows more secure, giving lenders greater confidence and greater willingness to lend to the hedged entity. In some cases, BOK has required customers to hedge (with some entity, not necessarily BOK) in order to lend to them because management feels strongly that hedging brings stability. Required hedging has also helped mitigate risk of problem credits.

If riskless principal trades cannot be taken by insured depository institutions, the result will be a reduction in loan availability to customers in commodity businesses, particularly those whose size makes it difficult or prohibitively expensive for them to execute on some alternative basis sound risk management practices. Furthermore, for those larger customers who can place their hedges outside of BOK, our ability to ensure that the customer's trades are in fact being placed exclusively for hedging would be impaired, which will have limit our willingness to lend to such customers. In short, if insured depository institutions discontinue accepting customer-driven, riskless principal derivatives transactions systemic risk will increase, which is of course

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<sup>10</sup> See Financial Stability Oversight Council, Study & Recommendations on Prohibitions on Proprietary Trading & Certain Relationships with Hedge Funds & Private Equity Funds (January 2011)(the "*Volcker Rule Report*") at 18-19:

"The size of the exposure and the amount of risk required to perform market making vary widely. At the one end of the spectrum lie those activities in which the market maker assumes very little risk in a transaction ('agency' or 'riskless principal' transactions). ...In the simplest form of agency or riskless principal transactions, market making involves the market maker either matching a buyer and seller, who then transact together, or securing commitments from both the buyer and the seller and then purchasing the financial instrument from the seller and immediately selling to the buyer [the latter is precisely the limit of BOK's riskless principal trading]. *These activities present minimal opportunity for impermissible proprietary trading.*"

Volcker Rule Report, at 18-19 (emphasis added).

<sup>11</sup> See the Volcker Rule Report; Board of Governors of the Federal Reserve System, *Bank Holding Company Supervision Manual* §3230.4.4.3 (July 2010); and OCC Interpretive Letter 992, 2004 WL 1687010 (May 10, 2004).



the exact opposite of the core purpose for the derivatives-related provisions of the Dodd-Frank Act.<sup>12</sup>

**Insured Depository Institutions like BOK will cease engaging in customer-driven, bank-permissible riskless principal derivatives transactions in the absence of either a specific exception from that definition or clear interpretive guidance**

Under the Pushout Rule of Section 716 of the Dodd-Frank Act, no insured depository institution can long survive if it becomes a “swap dealer.” A swap dealer is a “swap entity,” and “swap entities” are ineligible for “Federal assistance.”<sup>13</sup> “Federal assistance” as defined in the Act includes the use of any Federal Reserve credit facility, use of the Federal Reserve discount window, or the use of any FDIC insurance.<sup>14</sup> These programs are essential for any insured depository institution; demand deposits would, for instance, quickly evaporate from a bank whose accounts are not subject to FDIC insurance. As a result, all national and state banks that engage in customer-driven, bank-permissible riskless principal derivatives transactions will, absent unassailable assurances that such activities will not cause them to become “swap dealers,” be required to stop offering these services to bank customers.

Therefore, though as noted below, we believe that continuing our customer-driven, bank-permissible, riskless principal derivatives transactions would not cause us to be a “swap dealer,” absent clearer assurances, either in the form of a specific exception to the definition or interpretive guidance that unambiguously indicates that these transactions do not equal “swap dealer” activities, we will be required to discontinue them. The reason is simple: the “swap dealer” definition is inherently ambiguous and the interpretive guidance proposed in the NOPR, though supportive of our position, is not enough.

**Customer-Driven, Bank-Permissible Riskless Principal Derivatives Transactions Under the “Swap Dealer” Definition**

*“Swap Dealer.”* The Dodd-Frank Act defines a “swap dealer” as:

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<sup>12</sup> See, e.g., Senator Blanche Lincoln, Senate floor debate on the Dodd-Frank Act (July 15, 2010), reprinted at <http://www.gpo.gov/fdsys/pkg/CREC-2010-07-15/html/CREC-2010-07-15-pt1-PgS5902.html> (purpose of the Dodd-Frank Pushout Rules is to force banks to “‘push out’ the riskiest swap activities”).

“Section 716 [the pushout rule] appropriately allows banks to hedge their own portfolios with swaps or to offer them to customers in combination with traditional banking products. However, it prohibits them from being a swaps broker or dealer, or conducting proprietary trading in derivatives. The risks related to these latter activities are generally inconsistent with the funding subsidy afforded institutions backed by a public safety net.”

Letter of Mr. Thomas M. Hoenig, President, Federal Reserve Bank of Kansas City, to Senator Blanche Lincoln, June 10, 2010, [http://online.wsj.com/public/resources/documents/Hoenig\\_letter\\_061110.pdf](http://online.wsj.com/public/resources/documents/Hoenig_letter_061110.pdf).

<sup>13</sup> Dodd-Frank Act, §716(a).

<sup>14</sup> Dodd-Frank Act, §716(b)(1).



“Any person who (i) holds itself out as a dealer in swaps; (ii) makes a market in swaps; (iii) regularly enters into swaps with counterparties as an ordinary course of business for its own account; or (iv) engages in any activity causing the person to be commonly known in the trade as a dealer or market maker in swaps, provided, however, in no event shall an insured depository institution be considered to be a swap dealer to the extent it offers to enter into a swap with a customer in connection with originating a loan with that customer.”<sup>15</sup>

In approving the NOPR, the CFTC and SEC did not expand on the statutory definition in a manner relevant to BOK’s issue.<sup>16</sup>

The statutory, and proposed regulatory, definitions of “swap dealer” are inherently vague, turning as they do on questions of whether an entity is “holding itself out” as a dealer, or might be ‘commonly perceived in the trade’ as a dealer.<sup>17</sup> CFTC Commissioners O’Malia and Sommers, in dissenting from the issuance of the NOPR, expressed similar concerns regarding the ambiguity of the proposed definition of “swap dealer”. Commissioner O’Malia noted the absence of safe harbors that would permit a given entity clearly to determine if its behavior caused it to be a “swap dealer”;<sup>18</sup> and Commissioner Sommers noted that the proposed definition was “too broad and will likely capture entities that do not functionally operate as dealers.”<sup>19</sup>

BOK is potentially one of the entities that could, as Commissioner Sommers put it, be “captured” under the swap dealer definition, even though it does not functionally operate as a dealer. There is a risk that a regulator might characterize BOK’s riskless principal derivatives trading as being a swap dealer under the statutory and NOPR definition of that term. For instance, BOK might be considered to “hold itself out” to its customers as willing to enter into

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<sup>15</sup> Dodd-Frank Act, §721(a)(49)(emphasis added).

<sup>16</sup> Proposed Rule 1.3(ppp), NOPR at Fed. Reg. 80212.

<sup>17</sup> “These criteria [of both the Act and the NOPR] are general and subjective in nature and the Commission [CFTC] has offered relatively little guidance as to how they might be utilized to identify Swap Dealers.”

Perlman & Fatula, *CFTC Proposes Definitions of ‘Swap Dealer’ and ‘Major Swap Participant,’* National Law Review, December 2010, <http://www.natlawreview.com/article/cftc-proposes-definitions-swap-dealer-and-major-swap-participant>.

<sup>18</sup> <http://www.cftc.gov/PressRoom/SpeechesTestimony/omaliastatement120110.html>. Although Commissioner O’Malia’s comments appear to be addressed largely at the potential that commercial end users might be characterized as “swap dealers,” BOK believes that this also, and acutely, valid for insured depository institutions facing this vague definition. A commercial end user might be required to register with the CFTC and comply with various regulatory requirements concerning its behavior. An insured depository institution that inadvertently becomes a “swap dealer,” faces the destruction of its business.

<sup>19</sup> <http://www.cftc.gov/PressRoom/SpeechesTestimony/sommersstatement120110.html>. Cf. Antonin Scalia, *The Rule of Law as a Law of Rules*, 56 U.Ch. L. Rev. 1175, 1179 (1989)(“[e]ven in simpler times uncertainty has been regarded as incompatible with the Rule of Law. Rudimentary justice requires that those subject to the law must have the means of knowing what it prescribes”).



swaps as it communicates the availability of its riskless principal services to its energy and farming customers on an ongoing basis. Likewise, BOK enters into trades with its customers regularly and in the ordinary course of its business, albeit not in our view “for its own account.”

We believe that any characterization of an insured depository institution as a “swap dealer” because it regularly engaged in customer-driven, riskless principal transactions would be fundamentally incorrect, as it would arise from an examination of one of the two legs of a riskless principal trade in isolation rather than a consideration of either the purpose or the net effect of the transaction. The proper approach would be to evaluate a riskless principal transaction on an integrated basis, from which perspective it is clear that these transactions are agency, or brokerage trades, and not “dealer” transactions. That is the approach that the OCC and the Federal Reserve have long taken, and the reason these transactions are bank-permissible; when looked at on a combined basis, riskless principal trades are in essence agency or brokerage, financial intermediary transactions, and do not create incremental commodity or market risk for the bank engaging in them.<sup>20</sup> The Financial Stability Advisory Council reached the same conclusion in January 2011 when it characterized riskless principal trades as essentially “agency” trades.<sup>21</sup>

There is signal support for this characterization of riskless principal trading as a brokerage rather than a dealer activity in the series of regulatory and federal court decisions that interpreted the Glass-Steagall Act before that Act’s ultimate repeal. Glass-Steagall forbade banks from the business of underwriting “or dealing in securities” but permitted banks to purchase or sell securities “upon the order, and for the account of, customers, and in no case for its own account.”<sup>22</sup> As the OCC indicated in 1986: “this provision has been interpreted by the courts as allowing national banks and their subsidiaries to engage in *brokerage* activities.”<sup>23</sup> Based on this interpretation, the OCC then, in a series of decisions, permitted banks, before the repeal of Glass-Steagall, to engage in riskless principal transactions because it concluded that these trades were in the nature of broker, not dealer trades.<sup>24</sup>

The CFTC’s and SEC’s interpretive guidance in the NOPR appears to support this view. In discussing subpart (iii) of the “swap dealer” definition, the CFTC and SEC point out:

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<sup>20</sup> See *supra* notes 7 through 12 and note 25 below, characterizing riskless principal derivatives transactions as “financial intermediation”, “agency activities” or “brokerage” services.

<sup>21</sup> The Volcker Rule Report, at 18.

<sup>22</sup> 12 U.S.C. §24(7).

<sup>23</sup> OCC Interpretive Letter No. 371, 1986 WL 85084 (June 13, 1986) (emphasis added).

<sup>24</sup> See, e.g., OCC Interpretive Letter No. 626, 1993 WL 342844 (July 7, 1993)(“[t]he OCC has previously determined that brokerage activity conducted as a riskless principal is authorized for national banks and does not violate the Glass-Steagall Act restriction”); OCC Interpretive Letter No. 992, 2004 WL 1563358 (May 10, 2004) the proposed transaction is analogous to riskless principal brokerage transactions ... The OCC has found that these transactions are permissible under the express terms of Section 16 and present note of the hazards of speculation that the Glass-Steagall Act was intended to prevent”); OCC Interpretive Letter No. 371, 1986 WL 85084 (June 13, 1986).



“We interpret this reference to a person entering into swaps ‘with counterparties ... for its own account’ to refer to a person entering into a swap as a principal, and not as an agent. A person who entered into swaps as an agent for customers (i.e., for the customers’ accounts) would be required to register as either a Futures Commission Merchant, Introducing Broker, Commodity Pool Operator or Commodity Trading Advisor, depending on the nature of the person’s activity.”<sup>25</sup>

The legislative history of the Dodd-Frank Act also supports our interpretation of the “swap dealer” definition as that term was intended to apply to insured depository institutions. First, the pushout rule contained in Section 716 of the Dodd-Frank Act (which the swap dealer definition implements) was intended to stop speculative and proprietary trading by insured depository institutions, and customer-driven, riskless principal derivatives trading does not involve either speculation or proprietary trading.<sup>26</sup> As the Financial Stability Oversight Council concluded just a few weeks ago, riskless principal derivatives trading involves “minimal opportunity for impermissible proprietary trading.”<sup>27</sup>

Second, the sponsor of Section 716, Senator Lincoln, indicated in the Senate floor debate of the Act that the pushout rule was intended to apply only to swaps trading that “are not bank permissible.”<sup>28</sup> Customer-driven, riskless principal derivatives trading is bank-permissible, and has been for decades. Therefore, it appears clear that the then-chairperson of the Senate Agriculture Committee did not intend that the pushout rule have the effect of forcing banks to discontinue this activity. In the absence of a revision to the proposed definition of “swap dealer” or clear interpretive guidance regarding this activity, however, that will be the effect.

The changes we propose to the definition of “swap dealer” in the NOPR<sup>29</sup> would create a very limited and prudent exception for riskless principal derivatives transactions. First, to be exempt from swap dealer characterization, all trades would have to be initiated by customers and not by the insured depository institution. This ensures that the exception is not used to generate proprietary activities. Second, the exception would be available only to the extent that the insured depository institution’s primary bank regulator permitted such trading both by institutions subject to its authority generally and by that institution in particular. This would insure that the exception would be subject to future regulatory action by bank regulators should they perceive abuse of the authority to engage in riskless principal derivatives transactions, and would also ensure that each institution proposing to engage in this activity could do so only if the regulator that regularly evaluates it, including evaluations of its operations, capital adequacy,

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<sup>25</sup> NOPR at footnote 19, at Fed. Reg. 80177. *But see* SEC Rule 3a5-1, Exemption from definition ‘dealer’ for banks engaged in riskless principal transactions.

<sup>26</sup> *See supra* note 14.

<sup>27</sup> The Volcker Rule Report at 19.

<sup>28</sup> Senator Blanche Lincoln, Senate floor debate on the Dodd-Frank Act (July 15, 2010), *reprinted at* <http://www.gpo.gov/fdsys/pkg/CREC-2010-07-15/html/CREC-2010-07-15-pt1-PgS5902.html>.

<sup>29</sup> The text of the adjustment we propose to Rule 1.3(ppp), Definitions: Swap Dealer, appears in footnote 5 *supra*.



collateralization standards and risk management processes, concludes that such institution should be permitted to engage in this activity. Finally, riskless principal derivatives transactions would only be permitted if the customer-facing trades were immediately and fully laid off through risk mitigation activities permitted by Section 716 of the Dodd-Frank Act. These limitations would in combination ensure that the authority of banks to engage in customer-driven, riskless principal derivatives transactions would continue to serve solely to help banks and bank customers limit their commodity and market risks, as they have for decades.

## Conclusion

For the reasons set forth above, we respectfully request that the CFTC and the SEC revise the proposed definition of “swap dealer” contained in the NOPR in a manner that provides a clear exclusion from treatment as a “swap dealer” of any insured depository institution that, to the extent consistent with the rules for such institution of its principal prudential regulator, engages in customer-driven, riskless principal derivatives transactions, revise the proposed interpretive guidance regarding this proposed definition in a manner that provides such clear guidance that engaging in such conduct does not cause an insured depository institution to become a “swap dealer,” or both.

We appreciate the opportunity to comment on the NOPR, and would be pleased to discuss any questions you may have with respect to this letter. Any questions about this letter may be directed to Mr. Stacy C. Kymes, Executive Vice President of BOK.

Very truly yours,

Stanley A. Lybarger  
President & Chief Executive Officer  
BOK Financial Corporation

SAL/ds

cc: Honorable Gary Gensler, Chairman, CFTC  
Honorable Michael Dunn, Commissioner, CFTC  
Honorable Jill E. Sommers, Commissioner, CFTC  
Honorable Bart Chilton, Commissioner, CFTC  
Honorable Scott O’Malia, Commissioner, CFTC  
Terry Arbit, Deputy General Counsel, Officer of the General Counsel  
Julian E. Hammar, Assistant General Counsel, Office of the General Counsel  
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David E. Aron, Counsel Office of the General Counsel  
Honorable Mary Schapiro, Chairman, SEC  
Honorable Kathleen Casey, Commissioner, SEC  
Honorable Elisse Walter, Commissioner, SEC  
Honorable Luis Aguilar, Commissioner, SEC  
Honorable Troy Paredes, Commissioner, SEC  
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