April 3, 2014

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

Via Agency Website

Re: Docket No. 1479 and RIN 7100 AE-10: Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies related to Physical Commodities, Advance Notice of Proposed Rulemaking

The undersigned trade associations represent thousands of commercial businesses that use physical commodities and commodity derivatives to efficiently operate their businesses, manage and hedge their underlying business risks, and deliver value to their customers.

We write today to express our strong concern about the Advanced Notice of Proposed Rulemaking (ANPR) issued by the Board of Governors of the Federal Reserve System (Federal Reserve). While we appreciate that the Federal Reserve has chosen a formal notice and comment process to gather information from the public on this important subject, we are concerned that the ANPR and its 24 questions do not provide sufficient consideration to the potential downstream impacts on the commercial business that are longstanding customers of, and commercial counterparties to, Financial Holding Companies (FHCs).

We believe that the proposed new restrictions on FHCs' ability to transact in the physical commodities markets can negatively impact non-financial companies' ability to access efficient, transparent, liquid markets for managing their day-to-day physical commodity and related hedging needs. Such a result would lead to greater systemic and commercial risk concentration and less liquidity in physical commodities and commodity derivatives markets. These results could lead to serious, unintended consequences for commercial market participants, giving them fewer and more expensive options for hedging and mitigating commercial risk. We do not believe the Federal Reserve intended these anomalous results—indeed, commercial market participants often require more, not less, hedging of their diverse and dynamic commercial risk in order to achieve effective and efficient commercial risk management.

Each physical commodity sector is generally comprised of a finite number of dealers or market makers. For regional and specialty markets, the number of participating dealers or market makers is smaller still. Because FHCs tend to be large market participants and market makers in specific physical commodities and commodity derivatives markets, a wholesale, forced FHC exit from all such markets could well result in an immediate liquidity drain. Commercial businesses operating in specific commodity sectors rely on FHC participation in these markets to serve their complex and ever-changing business needs and eliminating even one dealer in a particular commodity market could reduce competition and increase costs.

FHCs offer a range of services that many commercial businesses often choose to bundle to facilitate complex transactions that have funding, financing, and hedging components. FHCs also transact in a variety of asset classes beyond physical commodities, including interest rates and foreign exchange, allowing end users to efficiently manage their counterparty relationships and credit support obligations.

The implementation of commodity market regulations under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act created a number of new regulatory challenges that affect the pricing and complexity of hedging instruments which commercial businesses rely on to run their operations efficiently and safely. We urge the Federal Reserve to not take steps that would compound these challenges, by directly or indirectly forcing well-capitalized, well-regulated FHC counterparties out of the physical commodities markets.

We thank you for your consideration.

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