ES150339

Congress of the United States
Washington, DC 20510

August 6, 2013

Hon. Ben Bernanke, Chairman
Hon. Dan Tarullo, Governor
Federal Reserve Board
20th Street and Constitution Avenue NW
Washington, DC 20551

Hon. Thomas Curry
Comptroller of the Currency
Department of the Treasury
Washington, DC 20219

Hon. Gary Gensler, Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Hon. Martin Gruenberg, Chairman
Federal Deposit Insurance Commission
550 17th Street, NW
Washington, DC 20429

Hon. Mary Jo White, Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Messrs. Bernanke, Tarullo, Curry, Gensler, and Gruenberg, and Ms. White:

In light of a series of revelations about the relationship between our financial sector and physical commodities, we call on you to use your full regulatory authorities to rein in excessive speculation in commodities and restore the principle that our financial system serves the real economy, helping us build our economy "from the middle class out."

In recent days and months, the American public has learned that:

- Banks, hedge funds, and financial investors are driving up the cost of aluminum, costing brewers and beer drinkers a combined $3 billion.[1]

---

[1] Joe Richter, *MillerCoors Sees Metal-Warehouse Delay Costing Buyers $3 Billion*, BLOOMBERG, July 22, 2013 http://www.bloomberg.com/news/2013-07-22/lme-rules-seen-by-millercoors-costing-aluminum-buyers-3-billion.html.

- Speculation in the oil market by banks and financial investors is responsible for as much as $14 for every tank of gas purchased by American drivers.[2]
- Banks are manipulating electricity markets, costing ratepayers millions of dollars in higher utility bills.[3]
- The copper market is at risk of being dominated by a bank-sponsored investment fund.[4]
- Even the price of bread and rice – staple foods for American families and hungry children around the world – is being driven up by financial speculation in grain commodities.[5]

Something is very wrong with America's current system of finance.

Middle class families and businesses want an economy that powers us all into the future, with a financial system that invests in new and innovative businesses, that helps states and local governments repair roads and bridges, that allows families to buy homes and go to college, and facilitates investments in the clean energy future we need. The job of the financial system is to take the savings that families and businesses work hard to earn and return it to the real economy through investments that create jobs, enhance productivity, and raise living standards. Banks, in particular, have a special role in taking deposits and making loans, while capital markets investors play a critical role in helping companies grow and expand productive capacity.

To be sure, healthy commodities markets are critical to ensuring manufacturers have the materials they need, when they need them. But when financial speculation dominates these markets, it overwhelms the farmers, trucking companies, and airlines that use these commodity markets as a hedge against their actual commodity use. In short, a healthy financial system is critical to robust economic growth, but when allowed outside of its proper channels, commodity speculation can be a drain on and a risk to businesses, families, and the economy in general.

The economy needs tough cops to keep Wall Street in its lane.

---

[2] Bart Chilton, *Speculators and Commodity Prices—Redux*, Feb. 24, 2014, http://www.cftc.gov/PressRoom/SpeechesTestimony/chiltonstatement022412 ; *Speculators and the Gas Pump*, N.Y. TIMES, April 18, 2012, http://www.nytimes.com/2012/04/19/opinion/speculators-and-the-gas-pump.html.
[3] Brian Wingfield & Danw Kopecki, *JPMorgan to Pay $410 Million in U.S. FERC Settlement*, BLOOMBERG, July 30, 2013, http://www.bloomberg.com/news/2013-07-30/jpmorgan-to-pay-410-million-in-u-s-ferc-settlement.html.
[4] Josephine Mason, *SEC again rejects copper users' challenges to JPMorgan ETF*, REUTERS, March 29, 2013, http://www.reuters.com/article/2013/03/29/us-etf-copper-jpmorgan-idUSBRE92S0HV20130329.
[5] Kharunya Paramaguru, *Betting on Hunger: Is Financial Speculation to Blame for High Food Prices?* TIME, (Dec. 17, 2012), http://science.time.com/2012/12/17/betting-on-hunger-is-financial-speculation-to-blame-for-high-food-prices/.

American free markets have a long tradition of robust regulation of Wall Street to ensure that capital efficiently flows to productive commercial investments, and not into bubbles and busts. President Teddy Roosevelt broke up the Wall Street "trusts," President Franklin Roosevelt separated banks, securities, and insurance companies and established strong limits on financial speculation in commodities, and President Dwight Eisenhower solidified the principle that ordinary commercial businesses should be separate from financial businesses like banks.[6] Unfortunately, over the last three decades, these basic rules of the road have been weakened.[7] The result has been that far too much investment flows takes forms that are unproductive for investors, risky for our banking system, and damaging for manufacturers, service providers and the real economy overall.[8]

The Dodd-Frank Wall Street Reform and Consumer Protection Act does much to help restore the focus that Wall Street should have on serving the real economy. It mandates strong limits on commodity speculation, separates banks that take deposits and make loans from high-risk hedge fund-like trading, and puts in place other key protections to prevent bailouts and collapses. But the law's protections are not yet fully in place, and we are far from finished with the reforms we need.

We believe that the events of the last several months regarding commodities and banks demands that you speed up your efforts to implement the law and its full range of authorities, as well as use the other authorities you have, to ensure that American families' savings and investments power our real economy. We appreciate your attention to these matters and look forward to your reply.

Sincerely,

[6] See John Krainer, *The Separation of Banking and Commerce*, Federal Reserve Bank of San Francisco (2000), http://www.frbsf.org/economic-research/publications/2000/article2-4.pdf.
[7] See, e.g., Saule T. Omarova, *Large U.S. Banking Organizations' Activities in Physical Commodity and Energy Markets: Legal and Policy Considerations*, July 2013, http://www.banking.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_ID=cca72cb5-a8fd-427a-978a-a51140a75cb0.
[8] See Wallace Turbevile, *Cracks in the Pipeline: Restoring Efficiency to Wall Street and Value to Main Street*, Demos, Dec. 5, 2012, http://www.demos.org/publication/cracks-pipeline-restoring-efficiency-wall-street-and-value-main-street.

cc: Hon. Jacob Lew, Secretary of the Treasury