



FEDERAL RESERVE BANK *of* KANSAS CITY

June 10, 2010

The Honorable Blanche Lincoln
U.S. Senator
355 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Lincoln:

As you know, commercial banks are the trusted guardian of depositors' funds and the primary intermediary of the national and global payments system—a role that is critical to our country's financial and economic stability. I have been a long-time proponent of limiting the derivative activities of commercial banks to only those designed to mitigate the institution's balance sheet risk. Accordingly, I support the reinstatement of Glass-Steagall-type laws to separate higher-risk, often more-leveraged, activities of investment banks from the commercial banking system.

Section 716 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. Such activities should be placed in a separate entity that does not have access to government backstops. These entities should be required to place their own funds at risk.

I appreciate the opportunity to comment on this matter which is of utmost importance to our nation's long-term financial and economic stability.

Sincerely,

Thomas M. Hoenig
President