



Banks look to exit commodities



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Gary Gensler, right, chairman of the Commodity Futures Trading Commission, and Mary Schapiro, chairman of the Securities and Exchange Commission, testify before the House Financial Services Committee in Washington, DC.

by ***Jeff Tyler*** (</people/jeff-tyler>)

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JPMorgan is rumored to be selling its commodity business. The deal could be worth around \$2 billion for the bank.

Commodities have been profitable for banks in the past. But now several banks are changing course.

To understand what's changing, let's start with how this business actually works.

Banks do more than trade commodities. Their holding companies will actually take possession the physical commodities, like aluminum or oil.

“So it might mean that you own tankers that sit off-shore, filled with oil, waiting for the price to rise. Most people don't associate that kind of business with a traditional banking business,” says Duke University finance professor Campbell Harvey.

Government regulators aren't crazy about the idea either.

“Federal agencies have been taking a much closer look at this kind of activity,” says law professor Michael Barr.

He now teaches at the University of Michigan. From 2009 through 2010, he worked at the Treasury, helping to reform the rules for Wall Street.

He says the feds are reconsidering whether banks should be in the commodity business. Barr says, “If it’s traded for short-term swings in profit, commodities trading could be one of the activities that would be curtailed by the Volcker rule.”

JPMorgan and other banks have been looking for an exit.

Campbell Harvey says it would be good for the banking industry to move away from commodities.

“I don’t feel that good about bailing out a bank because of some bad bets they made on commodities,” says Harvey.

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