OPENING STATEMENT
SENATOR JOHN McCAIN
Ranking Minority Member
Permanent Subcommittee on Investigations
Hearing On
Wall Street Banks Involvement With Physical Commodities

Thank you.

Before I begin, Mr. Chairman, I want to say what an honor and privilege it has been to serve alongside you on this Subcommittee. Your tireless efforts and steadfast dedication to exposing misconduct and abuse by financial institutions and government regulators have set a new standard for thoughtful and thorough Congressional investigations.

Whether the topic was the 2008 financial crisis, Swiss banking secrecy, or JPMorgan's "London Whale" debacle, professionals in the industry and the public at large knew that they could count on you to get to the bottom of it with authoritative reports and hearings. Your tenacity in uncovering wrongdoing sparked significant changes in the financial sector.

I also commend you on zealously and effectively pursuing your investigations in a way that has furthered this Subcommittee's long-standing tradition of bipartisanship. We may have had our disagreements, but we didn't let them get in the way of finding common ground where we could. While your retirement may come as a relief to some of those on Wall Street, your patience, thoughtfulness, and commitment to bipartisanship will be deeply missed on this Subcommittee and in the Senate.

Today's hearing explores the ways in which major banks produce, store, and sell physical commodities like aluminum, natural gas, and uranium. It sheds light on the little known, yet large role that banks play in the commodities markets and the risks inherent in those activities. This lack of insight into the banks' commodities operations raises concerns about, among other things, potential market manipulation and excessive risk that could, in extreme circumstances, lead to taxpayer bailouts.

This investigation has shown how, through their commodities activities, some of the country's largest financial institutions have taken on arguably excessive levels of risk, raised suspicions of market manipulation, and potentially gained unfair trading advantages. JPMorgan, for example, paid fines for energy price manipulation relating to its dozens of power plants. Morgan Stanley has entered the oil industry and even supplies several airlines with jet fuel at airports across the country. Goldman Sachs has uranium holdings and manages coal mines in Colombia. In each of these operations, there are dangers of toxic spills, deadly explosions, and other disasters. These are not the risks we normally associate with banks, whose primary role should be focused on more traditional banking activities.

The American people are all-too-familiar with costly accidents in these industries. For example, BP incurred around forty billion dollars in damages resulting from the Deepwater Horizon oil spill. Imagine if BP had been a bank. The losses and the liability resulting from the spill could have led to the bank failing and another round of taxpayer bailouts. Even if a bank survived such a catastrophe, the resulting financial shock might hurt ordinary investors and pension-holders. Similarly, inappropriate activities undertaken by financial institutions in commodities markets could lead to unfair trading advantages and conflicts of interest for the banks, and artificially higher prices for consumers.

Little is known about these activities and even less has been done to combat some of the biggest concerns about risk and manipulation. This warrants oversight by Congress and financial regulators, as well as potential changes to laws and regulations to curb the dangers to the economy and halt unfair practices. While Chairman Levin has recommended, and our witnesses may offer, some potential solutions in our hearing today, not all of which I will necessarily agree with, I think we should be mindful of unintended consequences. For example, a recent Wall Street Journal article highlighted concerns by some small communities about overly broad regulations impeding their ability to enter into financing with banks for the delivery of commodities like natural gas.

I look forward to hearing how the banks plan to address these concerns and I thank the witnesses for appearing here today. Thank you, Mr. Chairman.

# # #