American Bankers Association
ABA Securities Association
ABASA, an ABA subsidiary

November 14, 2016

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th St SW, Suite 3E-218
Mail Stop 9W-11
Washington, DC 20219

Re: **OCC Notice of Proposed Rulemaking on Investing and Dealing in Industrial or Commercial Metals (Docket ID OCC-2016-0022)**

Ladies and Gentlemen,

American Bankers Association Securities Association (ABASA)[1] appreciates the opportunity to comment on the Office of Comptroller of the Currency's notice of proposed rulemaking that would prohibit national banks from investing and dealing in industrial or commercial metals ("Proposed Rule"). We support many aspects of the proposal, including its confirmation that (i) certain forms of metal inventory financing that are structured through a purchase and sale of a metal, and (ii) transitory title transfer of metal, are permissible activities under 12 U.S.C. 24 (Seventh). However, the proposal leaves open several questions about the status of permissible financing activities, and the final rule would benefit from the OCC reaffirming and clarifying the permissibility of other metal financing transactions that are part of, or incidental to, the business of banking.

Specifically, the OCC should confirm that:

- Leases, consignments, market-based reverse repurchase agreements and other similar types of financing transactions (collectively "Metal Financing Transactions") are common financing arrangements entered into by banks and are permitted under 12 U.S.C. 24 (Seventh) as being incidental to the business of banking, regardless of actual ownership of metal or other commodities, and
- The use of unallocated metals accounts, cash settlements and flash (transitory) title transfers do not entail the physical possession of a commodity and therefore do not warrant treatment as physical holdings.

We discuss our suggestions further below and, in Annex A, we provide suggested amendments to the rule text to confirm certain activities would not be affected by the proposed rule. In Annex B, we provide examples of common Metal Financing Transactions.

[1] The ABA Securities Association is a separately chartered affiliate of the American Bankers Association, representing those holding company members of the American Bankers Association that are actively engaged in capital markets, investment banking, swap dealer and broker-dealer activities.

I. <u>In addition to Reverse Repos, the OCC Should Amend the Rule to Confirm Other Permissible Financing Transactions Are Not Affected by the Final Rule.</u>

We agree with the proposal that reverse repurchase agreements ("Reverse Repos") are the equivalent of a secured loan and are not dealing or investing activity.[2] Lenders often also finance customer metal inventories and related working capital through lease, consignment or market-based reverse repo structures, in addition to other permissible forms of extensions of credit (*i.e.*, asset based and cash flow loans). While these financing structures differ in several important respects from Reverse Repos and provide particular benefits to the customer,[3] they are used for the same reasons and purposes by businesses and bank customers, and the final rule text should clearly allow their use.

In addition, we understand that the proposed rule was not intending to overrule prior permissions granted to banks in relation to permissible metal or commodity transactions, and that the proposed rule text was intended to be flexible and non-exclusive. However, the proposed rule text could be read as limited to only the transactions described therein. There are, however, many types of transactions described in the preamble to the proposed rule (in particular, see footnotes 29 through 37) that do not appear in the rule text, and we do not believe the OCC intends to curtail such authorized transactions. In addition, we understand that the rule text is intended to be non-exclusive and flexible, as there are many more permissions previously granted by the OCC that were not mentioned in either the preamble to the proposed rule or in the rule text itself.[4] With these considerations in mind, in Annex A we offer suggestions to make clear our understanding of the OCC's intentions.

[2] The OCC requested comment on "whether reverse repurchase agreements that do not present commodity price risk for a bank and do not indicate market speculation are appropriately viewed to not indicate dealing or investing in metal." 81 FR at 63431. In response to OCC's question on "whether there are forms of reverse purchase agreements or related activities that warrant a determination that the activity is dealing or investing in metal," below and in Annexes A and B, we indicate that metal leases, consignments and market-based reverse repos, among other transactions that are the functional equivalent of an extension of credit, do not constitute "dealing or investing" in metal and should be confirmed as permissible activities not affected by this rule.

[3] As compared with Reverse Repos, metal financing transactions offer several benefits to the customer, including affording the customer greater certainty and leverage at a cheaper cost and reducing basis risk as the customer can be assured a hedge that is highly correlated to its asset.

[4] *See*, *e.g.*, OCC Interpretive Letters #806 (Oct. 17, 1997) and #867 (June 1, 1999) (Murabaha Islamic financing transactions involving deferred payment for sales of assets are the functional equivalent of an extension of credit); OCC Interpretive Letter #1117 (May 19, 2009) (volumetric production payments are the functional equivalent of an extension of credit).

II. Certain Statements in the Preamble Indicated Dealing Activity Concerns in a Broad and Ambiguous Manner, and Should be Removed or Modified.

We found several statements in the preamble to the proposed rule to be quite broad and not appropriately nuanced in relation to what constitutes dealing or investing activity.

First, the OCC makes certain statements with regard to taking price risk. However, it cannot be the case that taking commodity price risk alone is indicative of dealing activity. Banks have long been permitted to assume price risk as part of customer-driven transactions so long as the price risk is properly managed in a safe and sound manner.

In Metal Financing Transactions, as with other types of typical financing transactions with securities, commodities or asset underliers, such as lease financing or derivative intermediation, banks may be exposed to price changes in the value of the asset (e.g., residual value of personal property at the end of the lease). Consistent with OCC guidance, banks manage the potential changes in residual values by entering into derivatives and other hedging techniques.[5] By managing price risk in this way, a bank is agnostic about the change in metal prices and earns revenue from fees or interest charged in relation to Metal Financing Transactions.

Second, we note that the OCC makes a broad assumption about dealing being indicated by "pledging, selling, or rehypothecating metal acquired under a reverse repurchase agreement". This statement does not reflect, in our view, the likely ways in which a customer transaction may be funded or financed by the bank. It is perfectly permissible for the bank to take assets it owns and use such assets to obtain financing from other lenders in order to fund its customer business. Therefore, in asset-based lending transactions, a bank's reuse of collateral is permissible for the bank's own funding purposes, when the bank's asset serves as collateral for the bank receiving financing.

Therefore, there are more subtle nuances and caveats to the statements as to what constitutes dealing, and we recommend that OCC not include such statements in any final rule, or at least not curtail authority to engage in permissible financing for the bank's own assets.

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[5] *See, e.g.,* Office of the Comptroller of the Currency Handbook, Lease Financing Handbook (August 2014 (updated June 3, 2016)), *available at* https://www.occ.gov/publications/publications-by-type/comptrollers-handbook/pub-ch-lease-financing.pdf. As an additional note, banks have an expertise in managing such risks, as has been acknowledged by the OCC. *See also, e.g.,* OCC Interpretive Letter #953 (Dec. 4, 2002) (permission to purchase off-lease property from third parties because of development of bank expertise in managing residual values); OCC Interpretive Letter #1060 (Apr. 26, 2006) (customer-driven coal derivatives or transitory title physical transactions are permissible, and price risk may be hedged on a portfolio rather than matched basis); OCC Interpretive Letter #1073 (Oct. 19, 2006) (customer-driven metals derivatives or transitory title physical transactions are permissible, and price risk maybe hedged on a portfolio rather than matched basis).

We offer the following thoughts if the OCC addresses the parameters of "dealing" and "investing" in metals in this rulemaking. In our view, "dealing" in a commodity, such as metal, is commonly understood to mean acting as an intermediary that makes a profit on the bid-ask spread on physical purchases and sales. Entities "dealing" in physical metal quote both the bid and offer sides of the market on a regular basis and maintain a stock of inventory to satisfy physical purchases and sales. Banks entering into financing arrangements on both sides (customer financing and receiving financing from other lenders) based on assets do not meet this definition.

Further, "investing" is commonly understood to mean the purchasing of an asset (such as shares or property) in the expectation that the value of the asset may increase. Yet, as we noted above, by entering into customer-driven financing transactions, where the bank then manages the elements of price risk that it may retain in the transaction, a bank will be agnostic about the change in price and should earn revenue from fees or interest charged in relation to the financing transaction.

In the context of this section of our letter, we note that, as part of the OCC's portion of the "Section 620 Report" to Congress,[6] the OCC indicated its concern with certain copper trading and permissible limits, and did not otherwise note concerns with the various forms of customer-driven financing activity that we discuss herein. Therefore, we do not believe that the OCC intended to affect otherwise permissible financing transactions that are the functional equivalent of an extension of credit.

III. The Proposal Correctly States that Settlement by Transitory Title Transfer is a Permissible Transaction under 12 U.S.C. 24 (Seventh) as an Activity Part of, or Incidental to, Banks' Permissible Financial Intermediation Business.

We agree that settlement by transitory title transfer is a bank permissible activity that does not entail physical possession of a commodity.[7] As stated in the preamble, "transitory title transfer" means accepting and instantaneously relinquishing title to the commodity, as a party in a "chain of title" transfer. Transitory title transfer activity is generally not seen as giving rise to any increased risk of legal liability. Transitory title transfer of metal does not involve holding title for any period of time, nor taking physical possession of the commodity, and thus does not involve the customary activities or risks relating commodity ownership. Transitory title transfers are perfectly-matched financial arrangements involving exchanges of payments, with the pass-through bank acting as a financial intermediary between

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[6] "Report to the Congress and the Financial Stability Oversight Council Pursuant to Section 620 of the Dodd-Frank Act" (September 2016).

[7] Other U.S. regulations have acknowledged the permissibility of transitory title transfers. *See, e.g.,* 12 C.F.R. § 225.28(b)(8)(ii)(B)(3)(ii) and (4)(ii).

customers—which the OCC has long deemed a traditional and permissible banking activity. Transitory title transfers allow banks to meet customer demand and operate more efficiently.

The ability of a bank to engage in transitory title transfers in connection with its physical metal transactions also enables the bank to participate in markets where this form of settlement is common and provides customers a broader range of sophisticated risk management tools to address their financial, risk, and liquidity needs.[8] Moreover, transitory title transfers of physical metal subject banks to risks similar in nature to those present in customer-driven cash-settled commodity derivatives, which the OCC has for decades acknowledged banks are well situated to manage.[9]

IV. Unallocated Metals Accounts, Cash Settlements and Flash (Transitory) Title Transfers Do Not Entail Physical Possession of a Commodity.

Physical possession of a physical commodity appears to be the first step of the OCC's analysis when determining whether a bank is dealing or investing in industrial or commercial metals. In other words, the question of dealing or investing in physical metals would not arise if the transaction did not result in ownership in physical form. We have recommended in Annex A a clarification to the language of the rule text in order to make this point more readily understandable.[10]

In addition, to ensure certain transactions that do not result in physical ownership on the balance sheet are not inadvertently captured by this analysis, we request that the OCC confirm that the following transactions do not result in ownership in physical form:

i. Use of Unallocated Metals Accounts;
ii. Cash Settlements at the end of permissible Metal Financing Transactions;

[8] *See* OCC Interpretive Letter #962 (April 21, 2003) (transitory title transfers in relation to electricity derivative transactions); OCC Interpretive Letter #1025 (April 6, 2005) (transitory title transfers in relation to electricity derivative transactions); OCC Interpretive Letter #1040 (September 15, 2005) (physical settlement of emissions derivative transactions); OCC Interpretive Letter #1060 (April 26, 2006) (transitory title transfers in relation to coal derivative transactions); OCC Interpretive Letter #1073 (October 19, 2006) (transitory title transfers in relation to metal derivative transactions); and OCC Bulletin 2015-35, "Quantitative Limits on Physical Commodity Transactions" (August 4,2015) (quantitative limits do not apply to physical commodities acquired and immediately sold by transitory title transfer).

[9] *See* interpretive letters cited in immediately preceding footnote, as well as letters as far back as, e.g., OCC No-Objection Letter #90-1 (Feb. 16, 1990) (unmatched swaps and related hedging are permissible in relation to commodity prices); OCC Unpublished Interpretive Letter (Mar. 2, 1992) (confirming unmatched swap letter, and describing hedging commodity price risk on a portfolio, rather than individually matched, basis).

[10] The language included in Annex A for the definition of "physical form" tracks similar language in OCC Bulletin 2015-35 (Aug. 4, 2015) with regard to calculating permissible physical ownership as a hedge – the "value of physical C" is "the carrying value of the bank's physical holdings of C, measured at the end of the business day".

iii. Flash (Transitory) Title Transfers.[11]

These arrangements do not entail the physical possession of a commodity because they do not present risks similar to holding physical metal and are not viewed as holding physical metal from a legal and accounting perspective.

Unallocated metal is a book entry regarding a certain quantity of metal, but not for a particular purity or form.[12] An unallocated account holder may increase the value of its account by: (i) giving cash to the account company in exchange for increasing the notional quantity of the unallocated credit at a rate that approximately equals the offer price of the metal, (ii) delivering physical metal to the account company, or (iii) transferring credits from another account company or unallocated account holder. The unallocated account is not backed by a specific amount of metal that is identifiable and segregable. In essence, ownership of an interest in such an account does not mean that physical metal is owned by the account interest holder; the account interest holder would have to ask for physical distribution from the account before holding a physical commodity and the account interest holder, therefore, only has the "potential" right to receive physical metal. The distinction is recognized by generally accepted accounting principles (GAAP), which defines inventory as being "tangible personal property". Because unallocated metal is a contractual right, is intangible and would require extraction from the account and physical delivery/settlement prior to becoming tangible, GAAP does not recognize unallocated account interests as inventory.[13] Furthermore, the OCC recently acknowledged that "intangible assets or rights" are not physical.[14]

Similar to a checking account, the unallocated account holder has unsecured credit risk to the account company for the value of its account. In the event of the account company's bankruptcy, the account holder is an unsecured creditor and has no increased protection from or right to the metal inventory of the account company (whether or not the unallocated account holder delivered physical metal to open its account). Accordingly, if a

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[11] For the reasons provided in Section III above, we support the OCC's confirmation that transitory title transfers are permissible under 12 U.S.C. 24 (Seventh). Therefore, in this section we only provide additional information on unallocated accounts and certain cash settlements. Nevertheless, we note that the OCC has acknowledged that transitory title transfers, in addition to being permissible, also do not constitute physical positions in commodities. *See* OCC Bulletin 2015-35 (Aug. 4, 2015) at fn. 4 ("A physical commodity that the bank acquired and then immediately sold by transitory title transfer would not be included in the bank's physical inventory of that commodity").

[12] While the price of unallocated metal may be highly correlated to a particular size or purity, the holder of the unallocated metal typically does not have a specific size or purity.

[13] *See* FASB Master Glossary. ("[The aggregate of those items of tangible personal property that have any of the following characteristics: a. Held for sale in the ordinary course of business, b. In process of production for such sale, or c. To be currently consumed in the production of goods or services to be available for sale.").

[14] *See* OCC Bulletin 2015-35 (Aug. 4, 2015) at fn. 3 ("Financial instruments, intangible assets or rights, and indices are not physical commodities.").

bank "buys" or "sells" unallocated metal, it is not metal in a particular "form" or "physical". Because title to physical metal does not change hands, the transaction is financial in nature and not physical.

With regard to certain cash settlements at the end of a Metal Financing Transaction, for example, at the end of a lease, a customer may ask to "buy" metal directly from the bank if a small amount of the metal is consumed in process (e.g., refineries typically have precious metal leases to hedge and finance the platinum sponge that is required for their catalytic converters - a small amount of the platinum, typically less than 3%, is consumed during the catalytic process). Although this transaction may be documented as a "sale," no physical delivery takes place because the metal that is the subject of the sale has already been consumed. In other words, if 100 units of a metal were leased to a customer, the customer may, at the end of the transaction, inform the bank that it can only return 97 units and will return cash (in effect, a "sale") for the 3 units that are not returnable.

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If you have any questions or need further information, please contact Jason Shafer at (202) 663-5326 (email: jshafer@aba.com) or Cecelia Calaby at (202) 663-5325 (email: ccalaby@aba.com).

Respectfully Submitted,

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Annex A

Proposed Modifications to Rule Text

Below please find our suggested modifications to the Proposed Rule to clarify it in accordance with the above discussion.

§ 7.1022 National banks' authority to buy and sell exchange, coin, and bullion.

(a) In this section:

“Industrial or commercial metal” means metal (including an alloy) in a physical form primarily suited to industrial or commercial use, for example, copper cathodes;

“Physical form” means metal, the carrying value of physical holdings of which would appear on the bank's balance sheet, but would not include derivative instruments, intangible rights or assets (such as unallocated metal), interests in indices, or metal that is bought or sold only via transitory title transfers.

(b) Scope of authorization. Section 24(Seventh) of the National Bank Act authorizes national banks to buy and sell exchange, coin, and bullion. Industrial or commercial metal is not exchange, coin, and bullion within the meaning of this authorization.

(c) Buying and selling metal as part of or incidental to the business of banking. Section 24(Seventh) authorizes national banks to engage in activities that are part of, or incidental to, the business of banking. Buying and selling industrial or commercial metal for the purpose of dealing or investing in that metal is not part of or incidental to the business of banking pursuant to section 24(Seventh).

(d) Other authorities not affected. This section shall not be construed to preclude a national bank from ~~acquiring~~ buying or selling metal in connection with ~~its~~ permissible and incidental ~~authority~~ banking activities, including: lending, leasing, other extensions of credit and transactions that are the functional equivalent of extensions of credit; ~~to~~ exercising authority to foreclose on loan collateral, compromise doubtful claims, or avoid loss in connection with a debt previously contracted;~~.~~ ~~This section also shall not be construed to preclude a national bank from buying and selling physical metal to~~ hedging~~e~~ a derivative for which that metal is the reference asset so long as the amount of the physical metal used for hedging purposes is nominal; or pursuant to transitory title transfer as part of its financial intermediary activities incidental to the business of banking.

3. Add § 7.1023 to subpart A to read as follows:

§ 7.1023 Federal savings associations, prohibition on industrial or commercial metal dealing or investing.

(a) In this section, industrial or commercial metal means metal (including an alloy) in a physical form primarily suited to industrial or commercial use, for example, copper cathodes.

(b) Federal savings associations may not deal or invest in industrial or commercial metal. Federal savings associations may not buy or sell industrial or commercial metal if the purchase or sale is impermissible for a national bank

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Annex B: Common Metal Financing Structures

I. Leases

Leases are common in precious metal working capital finance where the customer has an ongoing need for the metal in a commercial or industrial process, but the metal is not materially consumed or incorporated into the end product. Some common examples include:

- Oil refineries that lease platinum or palladium for use in their catalytic converters
- Chemical companies that use precious metals as catalysts to improve the efficiency of various reactions
- Glass and fiberglass manufacturers use platinum group metals to produce glass panes, fiberglass, liquid crystal and flat panel displays

A typical lease would involve the following steps:

- The lender (the "Lessor") purchases "unallocated" metal from a merchant where both the Lessor and its customer (the "Lessee") have unallocated accounts in the amount of the lease;[15]
- At the time of the purchase, the Lessor hedges its residual value from the metal by selling futures that match the term of the lease (for example, if the lease is for 1000 oz.t with a one year term, the lender may sell 10 lots of COMEX gold futures (each lot is for 100 t.oz.) with a delivery date one year in the future);
- The Lessor credits the leased quantity of metal to the Lessee's unallocated account. Per the lease, it transfers control of the metal, but not title (which is typically retained by the Lessor throughout the term of a lease);[16]

[15] Alternatively, in the event that the lender had other transactions that lined up with the customer's leasing requirements, it may use that metal rather than purchasing it on the spot market to avoid transaction fees. For example, if the lender had a platinum lease ending shortly before another lease started, it may use the platinum from the first lease in the second lease.

[16] Alternatively, in a sale-and-leaseback structure, typically used when the customer has a pre-existing lease, the lender may credit the pre-existing lessor's unallocated account in satisfaction of the replaced lease rather than crediting the lessee's account.

- The Lessee withdraws the metal in its unallocated account into physical form. This typically involves a cost to the Lessee, and is tied to the purity and form of metal the Lessee requests to be drawn and requires for their commercial/industrial purpose;[17]

- The Lessee transports the physical metal to its facility and uses it in its processes. During this period, the Lessor retains title (but not control) of the metal while it is being used in a commercial or industrial application;

- At the end of the lease, the Lessee deposits metal into its unallocated account by:

  - transporting the metal and depositing the physical metal into its unallocated account, or

  - purchasing unallocated metal on the spot market and contributing it to the unallocated account;

- The Lessee satisfies the Lease by transferring the metal that is now in its unallocated account to the Lessor's unallocated account;

- The Lessor sells the unallocated metal that has been transferred into its account into the spot market and lifts its hedges;

- In the event a small portion of the metal has been consumed, the Lessee may request to cash settle the short fall by "purchasing" such shortfall from the Lessor to extinguish its obligation to return the metal.[18]

- The Lessor (the bank) receives fees, rents and interest payments in relation to the transaction.

Thus, these structures are almost exactly the same as permissible personal property leases, and constitute a functional equivalent of an extension of credit.

[17] For example, many commercial processes require gold that is 99.99% pure (as opposed to the standard purity of 99.95%). Withdrawing gold of that purity may result in a surplus fee of approximately 0.1% to 1% of the spot value of the gold. Also, the commercial / industrial process may require a particular form of metal, or it may be melted down and refined to serve a particular purpose. If it will be melted down, the Lessee would typically take physical delivery in the cheapest form possible (ingot and grain is typically cheaper than bars and coins because they do not satisfy the LBMA's good delivery requirements).

[18] For example, refineries typically have precious metal leases to hedge and finance the platinum sponge that is required for their catalytic converters. A small amount of the platinum, typically around 3%, is consumed during the catalytic process. Accordingly, at the end of the lease there is a small shortfall in the amount of platinum that needs to be returned to the lessor. This could be addressed by the Lessee purchasing the platinum in the spot market and transferring it from its unallocated account to the Lessor's unallocated account. However, purchasing platinum in the spot market incurs a cost in the bid-ask spread of the purchase. It is typically cheaper for the Lessor and the Lessee to cash settle the 3% shortfall; i.e., have the Lessee return cash instead of unallocated metal to the Lessor.

II. Consignments

Consignments are common in precious metal working capital finance where the customer has a need for metal inventory, and the metal is typically incorporated into or consumed in making the end product. Some common examples include:

- Jewelers, which hold raw or work-in-progress precious metal inventory until it is manufactured into a the final product;
- Electronic manufacturing companies, which utilize precious metals in hard disks and electrical components;
- Medical manufacturing companies, which utilize precious metals in pacemakers, catheters and other medical devices;
- Dental manufacturing companies, which hold precious metal inventory until it is manufactured into fillings, crowns, bridges and dental inlays.

Consignments are structurally similar to leases. However, because the metal is consumed or incorporated into the final product, the full amount of the consigned inventory is typically settled with the bank at the end of the consignment in an amount of cash representing the inventory that is already at the customer's location and incorporated (or about to be incorporated) into the final product. If the inventory is not consumed or incorporated into the final product, the consignee is obligated to return an equivalent amount of the metal at the end of the consignment (similar to a lease).

Because of the deferred nature of the obligation (either to settle in cash or to deliver back the consigned asset), the bank takes the credit risk of the customer. Therefore, this should be treated as the functional equivalent of an extension of credit, or the functional equivalent of a lease where the "leased" property or cash are returned at the end of the consignment.

III. Market Based Reverse Repos

Market Based Reverse Repos occur in precious metal working capital finance where the customer already has the metal in its possession or it does not need to utilize the metal during the term of the transaction.[19] Some common examples include:

- Electronics, car manufacturing or wiring companies that hold copper as inventory

[19] Market Based Reverse Repos are the preferred structure for base metal financing, where Leases and Consignments are more typical of precious metal financing. Often in precious metals, counterparties will utilize a Sale-Leaseback structure to accomplish the economic equivalent of a Market Based Reverse Repo.

- Mining companies that hold large quantities of copper concentrates

A Market Based Reverse Repo would involve the following steps:

- The lender (the "Initial Purchaser") would purchase the commodity inventory directly from the borrower (the "Initial Seller") for cash at the spot value. Depending on the location of the inventory, the Initial Seller may provide warehouse receipts to the Initial Purchaser or a perfected security interest (accompanied by UCC filings). The purchase price of the inventory would be discounted to reflect: (i) the Initial Purchaser's fee, and (ii) a haircut on the market value of the collateral to cover the Initial Purchaser's costs to resell the inventory to a third party.
- The Initial Purchaser and the Initial Seller may agree to a mandatory or optional repurchase of the inventory at the end of the term. If so, the price would be set at the spot value of the commodity on delivery, minus the haircut (but not the fee) used in the initial purchase.
- The Initial Purchaser would hedge the market price risk of the inventory at the time of purchase for the term of the transaction by selling futures on an exchange (such as CME, LME, *etc.*).
- At the end of the transaction, either (a) the Initial Seller would purchase the inventory at the spot price, less the haircut, or (b) the Initial Purchaser would sell the commodity inventory to a third party.
- If the Initial Seller repurchases the commodity inventory, it may also take over the Initial Purchaser's futures hedges through an "exchange for physical" transfer.