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April 4, 2014

Via Electronic Submission

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. 1479 and RIN 7100 AE-10: Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies related to Physical Commodities, Advance Notice of Proposed Rulemaking

Dear Mr. deV. Frierson,

United Parcel Service Inc. ("UPS") respectfully submits this letter in response to the request for comments by the Board of Governors of the Federal Reserve System (the "Fed") in its Advance Notice of Proposed Rulemaking relating to physical commodity and commodity derivatives activities conducted by financial holding companies (the "ANPR").

I. Background

UPS is the world's largest package distribution company. In 2013, UPS delivered 4.3 billion packages and documents. On average, UPS delivers 16.9 million packages and documents each day, or approximately 6% of the U.S. gross domestic product. UPS serves every address in the United States and more than 200 countries and territories worldwide with approximately 395,000 employees. We are proud to be an enabler of both domestic and global commerce.

To enable this type of commerce, we require significant quantities of fuel for our aircraft and delivery vehicles and are exposed to the risk associated with variations in the market price for petroleum products, including gasoline, diesel, and jet fuel. Sharp changes in fuel prices—which are not uncommon—threaten our ability to serve our customers. The volatility in such prices with respect to our business is illustrated by the $72 million increase in our fuel expenses in 2012 as compared to 2011 and the $77 million decrease in our fuel expenses in 2013 as compared to 2012. While we mitigate our exposure to these changing fuel prices through indexed fuel surcharges, we also enter into option contracts on energy commodity products with FHCs to manage the price risk associated with forecasted transactions involving refined fuels, principally jet-A diesel and unleaded gasoline. The objective of these transactions is to reduce the variability of cash flows, due to changing fuel prices, associated with the forecasted transactions involving those products.

We appreciate that the Fed is considering the current regulation of commodities trading. However, we are very concerned that the imposition of additional regulations on FHCs will lead to their departure from these markets, which would adversely impact our ability to properly manage our risks. For this reason, and because we do not believe further regulation is needed, we respectfully request the Fed to not adopt additional regulations on FHCs in this area.

II. The Imposition of Additional Regulation on FHCs Will Likely Lead To a Reduction in Market Liquidity

Robust markets require the participation of industry participants and, in many cases, the existence of market-makers. As noted above, reducing our risk to fuel price volatility is critical for our business and, because the physical commodity and commodity derivatives marketplace is already particularly concentrated, there is always risk that we will not be able to efficiently engage in hedging transactions.

FHCs, however, alleviate this concern as they are not only market-makers but they are particularly sophisticated in constructing hedging transactions and in identifying options to help manage our risks in ways that we otherwise would not have considered. Moreover, FHCs are regulated by the Fed and the Commodity Futures Trading Commission ("CFTC"), which provides us with a level of comfort when entering into hedging transactions with FHCs.

Our fear that the imposition of additional regulations will result in the departure of FHCs from these markets is not without basis. It appears that, in light of recent regulations and likely in anticipation of more, FHCs have already initiated their departure from the physical commodities marketplace. The ANPR notes that two of the twelve FHCs that currently conduct physical commodities activities have begun to exit from physical commodities activities. Indeed, just recently, the Swiss-based merchant firm Mercuria agreed to purchase JPMorgan Chase's physical commodity unit for $3.5 billion.

The departure of FHCs from these markets will reduce liquidity and make it difficult for end-users to efficiently hedge against risks. The remaining market participants may charge higher prices to engage in hedging transactions or, in certain circumstances, there may be no market participants with which to trade. In such circumstances, we will be required to engage in alternative risk mitigation by, for example, increasing fuel surcharges on our customers. Such a result cannot be the Fed's intention and, given the potential for reduced liquidity, we believe that the Fed should not adopt additional regulations at this time.

III. Additional Regulation is Unnecessary as FHCs Have Safely Engaged in These Activities Since 2003

The imposition of additional regulation on FHCs in this context is unnecessary given their track record since they were first approved to engage in such activities. FHCs are sophisticated market participants with a breadth of market experience and have proven their ability to manage appropriately the volatility in these markets.

The ANPR notes that there may be potential tail risks in commodities markets that could lead to "market contagion" that would pose risks to FHCs and the financial system, generally. The Fed highlights several environmental catastrophes, such as the oil spill involving the Deepwater

Horizon mobile offshore drilling unit, among others, and notes that these catastrophes "accent that the costs of preventing accidents are high and the costs and liability related to physical commodity activities can be difficult to limit and higher than expected." The Fed further makes the connection between these risks and the "underappreciated tail risks" that were a factor in the recent worldwide financial crisis.

Since 2003, however, FHCs have managed risks in these markets, and we are aware of no evidence that market contagion from the Deepwater Horizon or other incidents has posed any underappreciated tail risks to FHCs. Instead, we believe that the risk profiles of our FHC counterparties are transparent and well-known to the end-user community, which, as a rule, is not comprised of risk-seekers.

IV. Less Regulated or Unregulated Market Participants Could Take FHCs' Place in These Markets

We are also concerned that the imposition of additional regulations on FHCs could lead to less regulated or even unregulated entities taking FHCs' role in these markets. The recent (and potential) purchase of FHCs' physical commodity units by unregulated entities reinforces this concern. While unregulated participants may provide additional liquidity, we will not have the same level of confidence in transacting with them as we do with FHCs, and we will not be able to gauge their creditworthiness nearly as well. As noted above, FHCs have been transacting in these markets since 2003 under the oversight of regulators, including the Fed and the CFTC. It is both FHCs' experience and the regulatory framework that provides us confidence in choosing to transact with FHCs instead of engaging in other risk mitigation efforts.

In view of the financial crisis, we believe the Fed should take into account the role that less regulated and unregulated entities played as the existence of the so called "shadow banking" industry, indeed, is considered a leading cause of the crisis.

V. Conclusion

For the foregoing reasons, we urge the Fed to refrain from imposing additional regulations on FHCs in their physical commodity and commodity derivatives businesses and believe that doing so would harm many businesses, including ours, and with us, our customers.

We appreciate the opportunity to comment on this issue and are available at your convenience to discuss these issues to the extent you have any questions.

Sincerely,

Michael D. Kiely

Michael D. Kiely
Managing Director
UPS Federal Government Affairs