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April 16, 2014

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

Via Email

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

Denham Capital Management LP ("Denham") respectfully submits this letter in response to the Board of Governors of the Federal Reserve System's (the "Board") Advance Notice of Proposed Rulemaking relating to physical commodities activities conducted by financial holding companies (the "ANPR"). We are concerned about the consequences that additional regulation in this area could pose to American businesses.

Denham is an energy and resources private equity firm with more than $7.9 billion in invested and committed funds in the oil and gas, power and renewables and metals and minerals industries. Since 2004, our portfolio companies (our "companies") have created thousands of jobs and developed valuable energy resources, including significant investments in oil and gas and renewable energy, which are critical to our nation's energy independence. Our companies trade in both physical commodities and commodity-related derivatives with Financial Holding Companies ("FHCs") and they do so, in large part, to mitigate the risks associated with their businesses.

As the Board is undoubtedly aware, our companies participate in industries that face price volatility on a daily basis with respect to the physical commodities that both enter and exit their businesses. While we appreciate that the Board is investigating whether engaging in these activities poses risks to FHCs and to the financial system generally, we urge the Board to bear in mind that placing additional restrictions on FHCs could impact businesses like ours that must purchase and use physical commodities and hedge their risks effectively in order to survive and grow.

FHCs are in the business of making markets and thus provide a steady stream of liquidity in the physical commodities and commodity-related derivatives markets. Outside of FHCs, the physical commodities and commodity-related derivatives markets are often relatively illiquid. Our companies rely on FHCs because they make markets when our companies need to make trades and in the products they require to efficiently mitigate risks. Through their expertise, FHCs are able to offer and, in some instances, propose, customized trades that allow our companies to improve their risk mitigation techniques. FHCs also provide critical financing to support hedging and risk mitigation.

We are concerned that if the Board imposes further regulation, FHCs may decide to depart physical commodity and related derivatives markets. As the Board even notes in its ANPR, FHCs have already begun this departure, and a mass exodus could be catastrophic for our companies, reducing liquidity and leaving our companies searching for alternative methods to manage their risks. While we would certainly transact with other market participants to the extent it would help us manage our risks, the departure of FHCs from these markets would likely increase costs to end-users and their customers, with no increase in systemic safety.

To the extent other businesses replace FHCs in these markets, one could reasonably expect them to be less regulated and less creditworthy than many FHCs. In fact, FHCs have recently sold parts of their physical commodities businesses to less regulated international companies. While these companies may succeed (at least in the short term) in replacing FHCs in commodity markets, it is unlikely that we would have confidence in these counterparties equal to that which we currently invest in our FHC counterparties. Our current counterparties are required to abide by strict capital requirements and we trust in the regulation currently imposed by the Board and other regulators. In short, we like our FHC counterparties and we understand their credit profiles.

We also do not see a looming risk that justifies further regulation. The Board does not identify instances in which FHCs engaging in physical commodities activities have caused any harm, or even risk, to businesses like our companies or any other end-users of physical commodities and commodity-related derivatives, let alone to the financial system. Moreover, any such risk that might have been posed is now further mitigated by the capital and other requirements imposed by the Dodd-Frank Act on FHCs. Additional regulation here is simply unnecessary.

We again appreciate that the Board is examining these issues, but believe that any additional regulation on FHCs in the physical commodities and commodity-related derivatives markets will negatively impact end-user businesses around this country, including ours. We appreciate the opportunity to comment on this issue and are available at your convenience to discuss.

Sincerely,

Paul M. Winters
General Counsel