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Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Attention: Robert deV. Frierson, Secretary of the Board

RE: Comment Letter on the Advance Notice of Proposed Rulemaking on Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies Related to Physical Commodities (Docket No. R-1479; RIN 7100 AE-10)

Ladies and Gentlemen:

On behalf of Wells Fargo & Company and its subsidiaries (collectively, "Wells Fargo" or "we"), we appreciate the opportunity to provide our comments to the Board of Governors of the Federal Reserve System ("Board") on the Advanced Notice of Proposed Rulemaking on Complementary Activities, Merchant Banking Activities and Other Activities of Financial Holding Companies Related to Physical Commodities (the "ANPR").

Overview

Wells Fargo worked closely with several trade organizations in reviewing the ANPR. We share the concerns identified in the joint comment letter filed by the Securities Industry and Financial Markets Association ("SIFMA"), American Bankers Association, Financial Services Roundtable, Financial Services Forum, and Institute of International Bankers (the "SIFMA-led Letter"), the letter filed by The Clearing House Association LLC, and the American Bankers Association, the Financial Services Roundtable and the Institute of International Bankers (the "TCH-led Letter"), and a third letter filed by the Futures Industry Association. **(collectively the "Trade Letters").** We generally support the Trade Letters and generally endorse the suggestions made in the Trade Letters. We are also in agreement with the legal analysis contained in the Joint Memorandum of Law accompanying the SIFMA-led Letter by Covington & Burling LLP, Davis Polk & Wardell LLP, Sullivan & Cromwell LLP and Vinson and Elkins LLP on behalf of SIFMA (the "Joint Memorandum"). However, we file this comment letter to emphasize some of the issues raised in both letters and the Joint Memorandum and to highlight some of the benefits that have accrued to the public, to our portfolio company investees, to our customers and to Wells Fargo in our use of both the merchant banking authority and our complementary physical commodity trading authority.

Merchant Banking Activities

Although the introductory paragraphs of the ANPR state that the Board is reviewing merchant banking activities and other activities related to physical commodities, the discussion raises issues regarding the merchant banking authority more generally, and the focus of this portion of our letter is on our use of general merchant banking authority, not necessarily related to physical commodities.

In establishing the merchant banking authority for financial holding companies ("FHCs") through the enactment of the Gramm Leach Bliley Act of 1999 ("GLB"), Congress recognized the public benefits of merchant banking and the essential role that it plays in modern finance. In doing so, Congress both recognized the potential benefits of these activities but also weighed considerations of possible risk and the conditions that should govern the activity to assure safety and soundness. As discussed in the TCH-led Letter, Congress enacted a statutory framework and delegated to the Board and the Treasury Department the authority to adopt joint regulatory requirements that minimize the risk that any FHC would have material exposure from the activities of merchant banking portfolio companies beyond the amount of its investment and that establish a sound and prudent framework for the exercise of the merchant banking authority, such as prohibiting an FHC from routinely managing or operating a portfolio company, except in limited circumstances. Further, the Trade Letters generally, and the Joint Memorandum specifically, discuss existing significant legal safeguards (including regulatory schemes and established doctrines under corporate law) that limit the risk of FHCs being held liable for catastrophic or tail losses or other derivative or reputational liabilities that might arise from merchant banking activities.

In addition to these broader arguments and discussions, Wells Fargo believes that its own experience and history in conducting merchant banking activities would be useful in responding to the questions, issues, and requests for information set forth in the ANPR. Since the enactment of GLB, Wells Fargo has successfully provided equity financing under the merchant banking authority to a wide variety of non-financial companies across a broad spectrum of market segments, including application software; business services; communication services; enabling internet technologies; energy and energy technology; enterprise services, software and systems; life sciences; and service conductors and components.[1]

Our diverse portfolio of merchant banking investments has increased the safety and soundness of our institution by producing attractive risk-adjusted returns and enabling us to expand customer and client relationships in a range of industries, resulting in new financial opportunities. Notwithstanding that a public benefits analysis is not required for engaging in merchant banking and other financial in nature activities under section 4(k) of the Bank Holding Company Act, we note that our investments have strengthened Wells Fargo and in many cases generated substantial public benefits. These benefits can be clearly seen, by way of example, in the investments by NEP and NVP in small to medium sized companies as well as in Wells Fargo's investments in the renewable energy sector.

[1] In addition, through its Norwest Equity Partners ("NEP") and Norwest Venture Partners ("NVP") lines of business, Wells Fargo has made venture and private equity investments under other pre GLB sources of authority such as small business investment company ("SBIC") authority since approximately 1962.

NEP and NVP Merchant Banking Investments

Wells Fargo's major vehicles for providing private equity capital to more mature small to mid-cap portfolio companies and for providing venture capital to early stage investments are the subsidiary investment vehicles managed by NEP and NVP. Wells Fargo has realized consistent profitability from the investment activities of both NEP and NVP, and all mature NEP and NVP investment vehicles have yielded profits over the life of each vehicle.

As a private equity investor, NEP's mission is to help build and grow businesses that create valuable and enduring products and services, ultimately helping those businesses create jobs, support their communities, strengthen our economy, and create value. NEP's investments have benefited communities in 27 states across the U.S., and NEP portfolio companies have achieved significant growth in employment and revenues during NEP's time of ownership,[2] with portfolio company headcount increasing by 123%, new hires exceeding 49,047 employees, revenue growing 103%, and total revenues exceeding $8.4 billion.

A recent example of NEP's mission to create value was NEP's investment in Becker Underwood. In May 2004, NEP made its initial investment in Becker Underwood. At the time, it was a small company based in Ames, IA developing biological products for use in agriculture. With the capital from NEP, Becker Underwood was able to 1) focus more resources in R & D and new product development, 2) increase product market penetration, 3) expand internationally and 4) complete eight acquisitions. During NEP's ownership period, revenues grew from $73 million to $246 million, profitability quadrupled and employment grew from 254 employees to 448 employees. In November 2012, Becker Underwood was sold for a value in excess of $1.0 billion to a large global chemical company. As the majority shareholder, NEP was able to profit handsomely from the sale and capture significant value.

As a venture capital investor, NVP fosters innovation and helps build significant enterprises, thereby providing superior investment returns to Wells Fargo. Venture capital and private equity industries drive U.S. job creation and economic growth by helping entrepreneurs turn innovative ideas and scientific advances into products and services. These industries provide the funding and guidance necessary for building high-growth companies capable of bringing these significant innovations to the marketplace. Throughout its history, venture capital and merchant banking investments have built entire industry sectors by funding ground-breaking innovation. These include semiconductors, the Internet, biotechnology, medical devices and clean technology, which in turn have spawned new subsectors of their own. Such evolutions create virtuous circles of innovation, job creation and revenue growth that benefit all Americans. NVP's success has created approximately 100,000 new jobs across 21 states. NVP's investments in FireEye, Inc. and Rackspace Hosting, Inc. are illustrative of the impact NVP has had on the success of the portfolio companies in which it invests.

In March 2005, NVP made its initial investment in FireEye, a startup focused on network security that provides threat protection to enterprises and governments against cyber-attacks. At the time of NVP's initial investment, the company had not yet developed its product and had fewer than 10 employees. NVP made a minority investment of approximately $3 million in convertible preferred stock of the company at a valuation of $7 million. During the three years following NVP's initial investment, NVP made two follow-

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[2] Data represents 1980 – 2014 YTD investments; data as available from time of investment to exit or as of current date for active portfolio companies.

on investments in FireEye as the company raised additional funds to support its business model. NVP made additional follow-on investments through 2011 for a total of $22.1 million invested. In September, 2013, FireEye completed its Initial Public Offering at a valuation of $4 billion. As of March 2014, the company's valuation was greater than $8 billion, it employed over 1100 people and serves over 1300 customers. The $22.1 million invested by NVP now has a market value of over $1 billion.

NVP made its initial investment in Rackspace in 2000, shortly after its three founders had formed the company. The company, based in San Antonio, Texas, serves the needs of companies that want technology hosting and support. NVP made a minority investment of approximately $4 million in convertible preferred stock at a valuation of $90 million. Following its initial investment, NVP made additional investments in the company for a total funding of $51 million. In August 2008, Rackspace completed a $187.5 million initial public offering. As of March 2014, the company's valuation was greater than $4 billion. In addition, it employs over 5,000 people and serves over 197,000 customers worldwide. The company has been featured on Fortune's list of 100 Best Companies to Work For.

Renewable Energy Merchant Banking Investments

At Wells Fargo, we believe that as a company and a member of the global community it is our responsibility to finance companies that help protect and restore our environment. This is our way of contributing to the growth of the green economy. Since we made our first investment in a wind energy project in 2006, Wells Fargo has become a leader in environmental finance. Through the year 2011, we provided more than $11 billion, including through our merchant banking authority, in financing to renewable energy, green real estate, and clean technology projects and ventures, and in 2012 we announced a comprehensive goal of providing an additional $30 billion in financing to environmental businesses by the year 2020. Together, the renewable energy projects we have invested in have, through the year 2012, produced 61,800 gigawatt hours of electricity and avoided the release of 43.5 million tons of carbon dioxide.

A significant portion of environmental financing that Wells Fargo has provided to date has been made through merchant banking investments in portfolio companies that generate tax credits for investors. Wells Fargo has used the merchant banking authority to invest approximately $2.5 billion in utility wind, commercial solar and other renewable energy projects across 25 states with an aggregate nameplate capacity in excess of 6800 MW. In 2013 alone, our renewable energy merchant banking investments exceeded $220 million. These investments have achieved attractive returns over the life of our portfolio, which has earned a profit every year. Due to the complex legal issues associated with many renewable energy investments and the relatively few investors who can fully utilize available tax incentives, large financial institutions are a critical funding source for renewable energy developers. The merchant banking authority has greatly facilitated our contribution to the health and growth of this important, transformational sector of the energy industry.

Complementary Activities

Since 2006, we have engaged in complementary physical commodities trading activities, including engaging in physically settled commodity derivatives, taking or making delivery of commodities in settlement of those derivatives, taking inventory positions in physical commodities, and trading activities in the spot market in physical commodities.[3] The scope and volume of Wells Fargo's physical commodity trading activities during this time has varied with changing market conditions and customer demand for physical commodity products. Currently, Wells Fargo, acting through its subsidiary, Wells Fargo Commodities, LLC, engages in a limited, customer-driven business that provides physical commodity balancing and financing services to lending and institutional customers of the enterprise (or affiliates of such customers). These customers request this service from Wells Fargo because of our creditworthiness and strong relationship that typically spans numerous product offerings, allowing us an in-depth knowledge of their business needs and financial standing. The transparency that this relationship affords greatly enhances our ability to monitor credit and operational risk for this customer base. Accordingly, Wells Fargo's physical commodity platform is clearly supplemental to the other financial products that it offers.

Summary

Both Wells Fargo's merchant banking and complementary physical commodities trading activities have increased Wells Fargo's profits and not resulted in any material liabilities over the life of those businesses. Further, consistent with the SIFMA-led Letter and the TCH-led letter, the merchant banking and physical commodity trading businesses have never faced any massive tort, commodities-related, environmental or other catastrophic-type liability—the kind of tail risk that is the central concern of the ANPR. As required by the Board, we also have policies and procedures in place that govern our merchant banking investments and physical commodity trading business. We believe that compliance with the limitations and restrictions set forth in the current regulations adequately insulates us from such liability. This conclusion is more than borne out by our experience as described in this comment letter.

Specifically with respect to merchant banking activities, Wells Fargo has never faced any colorable veil-piercing claims tied to our merchant banking activities. Wells Fargo also strongly believes that any shortening of the ten year (or fifteen-year in the case of private equity fund investments) holding period would encourage riskier investments and increase the probability of losses because portfolio companies would have less time to properly work through downturns and other challenging circumstances.

We appreciate your consideration of our comments. We will gladly make ourselves available for any further consultations and/or questions you may have. Please contact me if we can assist you in any way.

Sincerely,

Timothy J. Sloan

[3] We note that one of our predecessor institutions, Wachovia Corporation, received approval to engage in physical commodity trading activities in 2006, and Wells Fargo originally received similar approval in 2008. The Board's statement regarding approval of Wells Fargo's acquisition of Wachovia Corporation noted the acquisition of Wachovia's complementary physical commodity trading activities. See Wells Fargo & Company, 95 Federal Reserve Bulletin B39, B41 (2009).