SUBMITTED ELECTRONICALLY

April 16, 2014

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Attention: Mr. Robert de V. Frierson
Secretary

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:

This letter is submitted by the Private Equity Growth Capital Council ("PEGCC", "we" or "us", as applicable) in response to the above-referenced Advance Notice of Proposed Rulemaking (the "ANPR")[1] issued by the Board of Governors of the Federal Reserve System (the "Board"). The PEGCC is an advocacy, communications and research organization established to develop, analyze and distribute information about the private equity and growth capital investment industry and its contributions to the national and global economy.[2]

Although the focus of the ANPR is on financial holding companies and their involvement in certain physical commodities-related activities, potential regulatory action by the Board in this area could indirectly affect businesses in which our member firms invest ("portfolio companies"). These portfolio companies employ millions of people in all sectors of the economy. Many, if not most, rely on well-functioning commodities markets to ensure the productivity of their operations and, in many cases, enter into commodities transactions with intermediaries as part of their risk-management strategies. Given the crucial importance of commodities-related markets to our portfolio companies, we are concerned that potential new restrictions on financial holding companies' commodities-related activities could disincentivize their participation in the commodities markets and their provision of certain commodities-related services to their customers.

In this letter, we discuss the important role financial holding companies play as intermediaries to our portfolio companies that are producers or consumers of commodities and in the commodities markets more broadly. In evaluating whether to impose additional limits on financial holding companies' participation in these markets, we respectfully urge the Board to carefully consider the significant benefits

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1 79 Fed. Reg. 3329 (Jan. 21, 2014).

2 Established in 2007, and formerly known as the Private Equity Council, the PEGCC is based in Washington, D.C. The PEGCC's members are the world's leading private equity and growth capital firms united by their commitment to growing and strengthening the businesses in which they invest.

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that are derived from financial holding company intermediation activities, in particular, reduced operational costs to consumers and producers and enhanced market liquidity.

I. Financial holding companies provide important intermediation services for our members' portfolio companies

Unlike commercial firms, financial holding companies' participation in the commodities markets is primarily focused on providing intermediation services, including market making, inventory management services and risk management services. One of the primary roles financial holding companies play in the commodity markets is as market makers willing to execute trades with commercial firms and other counterparties. Without the presence and involvement of such market makers, other market participants, in order to trade in these markets, generally would have to rely on other firms' desire to enter into transactions for their own commercial or financial reasons. The market making role of financial holding companies is particularly important in thinly-traded, less liquid markets.

Financial holding companies also provide intermediary services on behalf of their customers, including portfolio companies. These services include agreements by financial holding companies to acquire the physical product of producers, such as oil and gas drillers or refineries, or to deliver commodities to consumers, such as transportation or manufacturing companies, in which the financial holding company directly transacts in the physical commodity. Producers and consumers, by allowing financial holding companies to optimize their inventory management in this way, do not need to concern themselves with funding large inventories and are, as a consequence, able to deploy their capital more productively. Financial holding companies may have greater access to credit markets than their customers, particularly in the case of smaller, less diversified customers, and may be better able to hedge the risks of holding this inventory, thus allowing them to provide this service on a cost-effective basis.

Financial holding companies also engage in transactions with customers designed to help customers manage their risks, for instance, by entering into a hedge with a manufacturer client of the price of a key commodity input of the manufacturing business or by locking in the spread between the price of an input commodity and the price of the output commodity. In this way, companies, including portfolio companies, are able to focus on their core businesses rather than being subject to, and having to manage, the vicissitudes of changing commodity prices. Although some companies hedge these risks directly, such hedges can be difficult to implement, and our members have found that the most efficient way for a company to hedge its commodities-related risks is often to allow a financial holding company to develop a risk management approach tailored to the company's particular needs.

Financial holding companies could provide risk management services in the financial markets without participating in the physical markets. However, participation in the physical markets both provides financial holding companies with more diverse opportunities for hedging their own risks and provides them with greater market information and expertise, allowing financial holding companies to provide risk management services more efficiently. For instance, to meet the risk management needs of a particular company, a financial holding company may need to transact in a specific grade or variety of the commodity for which there may not be a financial market; in such a case, even if a financial contract would meet the needs of the company in question, the financial holding company would need to have access to the physical market in order to inform its pricing of the financial contact and to hedge its own risks from entering into the financial contract.

II. Financial holding companies' participation in the commodities markets also benefits the markets more broadly

The participation of financial holding companies in both financial and physical commodities markets benefits even those producers and consumers that do not rely on financial holding companies for the intermediation services discussed above. This is because the commodity transactions that financial holding companies engage in, whether as intermediaries or in hedging the risks from their intermediary activities, substantially enhance the robustness and liquidity of these markets, which, in turn, promote more accurate and stable pricing of these commodities. This is particularly important in the case of more thinly-traded, less liquid commodities markets. Although the markets for certain commodities (or, more specifically, certain grades and varieties of a commodity) may be deep and well-established, the markets for others are much thinner. Financial holding companies' participation in both financial and physical markets also helps support price convergence between the physical and financial markets, thus making these markets more efficient.

III. Conclusion

From companies engaged in drilling and mining, to those running pipelines, refineries and power plants and, ultimately, consumers such as manufacturers and transportation providers, our portfolio companies rely on well-functioning commodities markets and the services of market intermediaries. Financial holding companies both provide crucial liquidity to these markets and provide bespoke intermediary services to our portfolio companies that allow them to focus on their core businesses and thus increase their productivity. As long-term investors in these portfolio companies, our members caution the Board against taking any action that could have the effect of restricting financial holding companies' engagement in commodities activities given their benefits to producers and consumers and, thus, to the economy as a whole.

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We appreciate the opportunity to comment on the ANPR. We are available to discuss any questions that you may have.

Respectfully submitted,

Steve Judge

Steve Judge
President and CEO
Private Equity Growth Capital Council