Coalition for Derivatives End-Users

May 7, 2013

The Honorable Jeb Hensarling	The Honorable Maxine Waters
Chairman	Ranking Member
House Committee on Financial Services	House Committee on Financial Services
U.S. House of Representatives	U.S. House of Representatives
2228 Rayburn House Office Building	2221 Rayburn House Office Building
Washington, DC 20515	Washington, DC 20515

Re: End-User Support for H.R. 634 to Protect Derivatives End-Users from Unnecessary Margin Requirements and for H.R. 677 to Preserve Central Hedging and Prevent Unnecessary Regulation of Inter-Affiliate Swaps

Dear Chairman Hensarling and Ranking Member Waters:

The undersigned organizations—representing hundreds of end-user companies that employ derivatives to manage risk—write in strong support of H.R. 634, the *Business Risk Mitigation and Price Stabilization Act of 2013*, introduced by Representatives Grimm, Peters, Austin Scott and McIntyre, and H.R. 677, the *Inter-Affiliate Swap Clarification Act*, introduced by Representatives Stivers, Fudge, Gibson and Moore. These two vital bills would help prevent unnecessary and harmful regulation of derivatives end-users and preserve jobs. We commend you and the other members of the Financial Services Committee for working to advance these bills in the 113th Congress.

H.R. 634 would ensure that regulators do not impose unnecessary margin requirements on many end-users. In approving the Dodd-Frank Act, Congress made clear that end-users were not to be subject to margin requirements. Nonetheless, regulations proposed by the Prudential Banking Regulators could require end-users to post margin. And while the regulations proposed by the Commodity Futures Trading Commission (the "Commission") are preferable to the regulations proposed by the Prudential Banking Regulators, the Commission's regulations do not provide end-users with the predictability and assurance that H.R. 634 provides. According to a Coalition survey, a 3% initial margin requirement could reduce capital spending by as much as $5.1 to $6.7 billion among S&P 500 companies alone and cost 100,000 to 130,000 jobs. We need Congress to step in and clarify that end-users will continue to have the ability to manage risk without the threat of having unnecessary margin requirements imposed on them. In short, we need this bill. We are also hopeful that H.R. 634 will be expanded to exempt trades with financial end-users, which also employ derivatives to manage risk. The House Committee on Financial Services reported an identical bill (H.R. 2682) by voice vote in the 112th Congress, and the bill received overwhelming bipartisan support when it passed the House on March 26, 2012.

H.R. 677 would prevent certain internal, inter-affiliate trades from being subject to regulatory burdens that were designed to be applied only to certain street-facing swaps. It also would prevent regulators from denying non-financial companies use of the end-user clearing exception because they have chosen to hedge their risk in an efficient, highly-effective and risk-reducing way – through the use of centralized treasury units. Regulators have proposed a clearing exemption for inter-affiliate trades, but it would impose unreasonable conditions on financial end-users and would not address the centralized hedging unit problem. The Coalition believes that regulation of inter-affiliate trades should square with a simple economic reality: internal trades do not increase systemic risk. Thus, imposing requirements that are designed to address systemic risk on inter-affiliate trades would create costs without a corresponding benefit, placing substantial burdens on end-users and consumers and increasing costs to the economy. H.R. 677 also includes language that ensures bank swap dealers and major swap participants would not be able to take advantage of the clearing exemption in the bill that is intended for end-users only. The House Committee on Financial Services reported a similar bill (H.R. 2779) by a vote of 53 ayes and 0 nays in the 112th Congress, and the bill received overwhelming bipartisan support when it passed the House on March 26, 2012.

Throughout the legislative and regulatory processes surrounding the Dodd-Frank Act, the Coalition has advocated for strong regulation that brings transparency to the derivatives market and imposes thoughtful new regulatory standards that enhance financial stability while avoiding needless costs. The Coalition appreciates very much your bipartisan legislative efforts to focus regulation where it is needed most by removing the burden where it will cause harm and provide no benefit.

Sincerely,

Agricultural Retailers Association
Business Roundtable
Commodity Markets Council
Financial Executives International
National Association of Corporate Treasurers
National Association of Manufacturers
Real Estate Roundtable
U.S. Chamber of Commerce