Coalition for Derivatives End-Users

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New Survey Shows Harsh Impact of Dodd-Frank Regulatory Requirements on End-Users

Coalition for Derivatives End-Users Details Negative Effect on Business Investment and Job Creation

Washington, D.C., March 26, 2014 – The Coalition for Derivatives End-Users unveiled a new survey today revealing the damaging impact that margin requirements could have on Main Street businesses. This potential impact is the result of unintended consequences of one section of the Dodd-Frank financial reform law. According to the survey, companies utilizing derivatives to mitigate business risk may be forced to reduce capital spending, hindering future business investment and job creation.

Key survey findings include the following:

- An overwhelming majority (86 percent) of companies indicate that government-imposed margin requirements would adversely impact business investment, acquisitions, R&D and job creation.
- The median respondent would need $125 million to fully collateralize its over-the-counter derivatives transactions.
- Four out of five respondents say that a margin requirement will impact capital expenditures, with 37 percent noting the impact will be "significant."
- 91 percent say that a margin requirement will alter their risk-mitigating hedging strategies.

The Coalition has endorsed solutions that would restore congressional intent and implement a fair regulatory environment for end-users. H.R. 634, sponsored by Reps. Michael Grimm (R-NY) and Gary Peters (D-MI), passed the House overwhelmingly by a vote of 411–12. Identical legislation, S. 888, introduced by Sens. Mike Johanns (R-NE) and Jon Tester (D-MT), has strong bipartisan support and is awaiting action in the Senate.

> "Our nation's manufacturers, farmers and ranchers aren't trying to get rich quick by playing the market, but rather, defending themselves and their customers against unexpected market shifts," said Sen. Johanns. "Our bipartisan bill ensures that they can continue operating smartly without punishing requirements that were never meant to impact them."

> "Today's report confirms that farmers, ranchers and small business owners—folks who responsibly manage their risk—shouldn't be subjected to rules designed for Wall Street traders," said Sen. Tester. "Our bipartisan bill clarifies Congress' intent and gives Main Street businesses the flexibility and

certainty they need to protect their livelihoods, run their companies and create jobs."

"The results of the survey released today only further validate what we already knew: imposing margin on nonfinancial end-users of over-the-counter derivatives will have a negative effect on job creation and our economy as a whole," said Rep. Grimm. "Requiring the firms, which are critical to job creation in this country, to set aside much-needed capital into a margin account is a prime example of harmful regulatory overreach. Therefore, it is imperative that the Senate takes up my legislation, H.R. 634, which passed the House last year with an overwhelming 411 votes in support and prevents regulators from imposing unnecessary and counterproductive margin requirements on end-users."

"Our focus needs to be on creating jobs and growing our economy, and that's why I support ensuring that Michigan businesses that rely on derivatives are not unfairly penalized and can continue to responsibly manage risk," said Rep. Peters. "Whether it's farmers worried about the price of fertilizer or manufacturers concerned about fluctuating interest rates, derivatives end-users represent a broad cross-section of critical businesses across our nation. This marks an important step to allow businesses to create jobs and regulators to focus on meaningful oversight."

"As detailed by the survey released today, without swift action on S. 888, nonfinancial end-users like Honeywell will be forced to divert capital away from job-creating investments, sidelining billions of dollars in margin accounts if we want to continue to mitigate risk through derivatives," said Jim Colby, assistant treasurer of Honeywell International. "For Honeywell, under certain scenarios, this could imply margin requirements of approximately $250 million. Cash deposited in a margin account cannot be more productively deployed in our businesses and, as a result, limits our ability to promote economic growth and protect American jobs."

"Customized derivatives are critical to the beer business, which seeks to mitigate everyday business risks involved in the brewing and packaging of our fine beers," said Tim Weiner, global risk manager of MillerCoors LLC. "If the cost of risk management is dramatically increased by applying margin requirements on nonfinancial end-users, many companies such as MillerCoors will be hurt, and the recovery may suffer a serious setback."

"Today's survey results clearly demonstrate the devastating impact margin requirements will have on companies from virtually every sector of our economy," said Michael Bopp, counsel to the Coalition for Derivatives End-Users. "We hope this information will serve as an eye-opener and spur action on S. 888 and related legislation regarding centralized treasury units as soon as possible to protect jobs and business investment."

Click here to view the full survey results.

The Coalition for Derivatives End-Users represents the views of companies that employ derivatives primarily to manage risks associated with their businesses. More than 270 companies and business associations have joined the Coalition in seeking strong, effective and fair regulation of derivatives markets that brings transparency and mitigates the risk of another systemic collapse while not unduly burdening American businesses and harming job growth. To learn more about the Coalition, please click here.