

Coalition for Derivatives End-Users

October 11, 2011

House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

House Agriculture Committee
1102 Longworth House Office Building
Washington, DC 20515

Re: Support for H.R. 2682, the Business Risk Mitigation and Price Stabilization Act of 2011

To the Members of the House Financial Services and Agriculture Committees:

The Coalition for Derivatives End-Users represents thousands of companies across the United States that use over-the-counter (OTC) derivatives to manage risks that they face in connection with their businesses.

While the Coalition supported the Dodd Frank Act's goals of increasing transparency and reducing systemic risk in the OTC derivatives market, we also emphasized the critical importance of avoiding unnecessary burdens on end-user companies. The margin requirements proposed by regulators fail this commonsense test despite the clear intent of Congress to the contrary. They would be a direct liquidity drain on companies that would inhibit growth and job creation without making our financial system safer.

Today, we write to offer our support for H.R. 2682, the Business Risk Mitigation and Price Stabilization Act of 2011, introduced by Representatives Grimm, Peters, Scott, and Owens. This bipartisan bill would create a partial end-user exemption from margin requirements and reduce a significant source of uncertainty now facing the business community. The bill is a helpful first step toward ensuring that Congressional intent is honored and that vital risk management tools are not made impractical by overregulation.

We remain concerned, however, that this legislation does not take steps to protect financial end-users, which are financial companies – including pension funds and commercial businesses with financial affiliates – that use derivatives primarily to hedge business risks and whose derivatives use does not jeopardize financial stability. We look forward to working with Congress to ensure that financial end-users will not see their hedging costs soar.

A survey and analysis conducted by the Coalition is illustrative of the significant stakes of this issue for businesses and the economy. The survey found that a requirement to impose a 3% initial margin requirement on OTC derivatives could lead to a loss of 100,000 to 120,000 jobs within S&P 500 companies alone. The additional impact of variation margin could significantly increase this negative impact on jobs.

Even more striking is the Office of the Comptroller of the Currency (OCC) estimate that the banking regulators' margin rule would force the 74 banks they regulate and their counterparties

to set aside more than \$2.05 trillion as collateral solely to satisfy initial margin requirements. If accurate, this amounts to more than 41 times the total derivatives losses reported by US financial institutions since the financial crisis began. While we believe it is important to reduce risk within our financial markets, transactions with end-users have not been found to pose systemic risk, and our companies and our economy cannot afford this regulatory sidelining of capital.

We appreciate the bipartisan, multi-committee effort to prevent a major self-inflicted economic wound. H.R. 2682 is a solid starting point toward a solution, and we encourage Members to support the legislation.

Sincerely,

Agricultural Retailers Association
American Petroleum Institute
Business Roundtable
Commodity Markets Council
Financial Executives International
National Association of Corporate Treasurers
National Association of Manufacturers
National Association of Real Estate Investment Trusts
The Real Estate Roundtable
U.S. Chamber of Commerce