Committee on Agriculture
Frank D. Lucas, Chairman

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H.R. 2682
The Business Risk Mitigation and Price Stabilization Act

Sponsored by Reps. Michael Grimm, Gary Peters, Austin Scott & Bill Owens

Summary:
Ensures that end-users of derivatives will be exempt from margin requirements under the Dodd-Frank Act, as Congress always intended.

Why:
Congress was clear in its intent that Dodd-Frank exempt end-users from costly margin requirements. The exemption was included because end-users do not pose systemic risk, and a margin requirement would needlessly divert working capital away from job creating production and investment.

Nevertheless, some regulators have interpreted Dodd-Frank as a grant of new authority and have proposed a margin requirement on end-users when they enter into swaps with bank swap dealers. Because end-users generally enter into swaps with bank swap dealers, this proposal will result in a new margin requirement for most end-user transactions.

H.R. 2682 clarifies Congressional intent by providing an explicit end-user exemption from margin requirements.

Costly Requirements:
A survey of American businesses by the Coalition for Derivatives End-Users found that this could result in a new average initial margin requirement of $269 million per company, and across the S&P 500, **a loss of 100,000 to 130,000 jobs.**

Like all other transactions, end-users' trades will be reported to a swap data repository providing regulators with full transparency. But a margin requirement may actually create more risk in the system by making hedging too expensive, and leaving businesses exposed to risk that will be handed down to consumers in the form of fluctuating, higher prices for goods and services.

Who Are End Users?

End-Users are the businesses across the country that use derivatives to manage the risks that arise in their daily operations. For instance:

Hospitals use derivatives to manage interest rates when financing expensive new technology.

Manufacturers hedge against rising input costs such as steel or fuel.

Farmer cooperatives hedge against volatility in crop prices.

If these end-users are required to post margin, the costs of hedging could become too high. The result would be a riskier business environment and higher prices for consumers.

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