

American Bankers Association  
Financial Services Forum  
Financial Services Roundtable  
Futures Industry Association  
Institute of International Bankers  
International Swaps and Derivatives Association  
Securities Industry and Financial Markets Association

January 12, 2017

The Honorable Paul Ryan  
Speaker  
U.S. House of Representatives  
H-232 Capitol  
Washington, DC 20515

The Honorable Nancy Pelosi  
Democratic Leader  
U.S. House of Representatives  
H-204 Capitol  
Washington, DC 20515

Dear Speaker Ryan and Leader Pelosi:

The undersigned and their member firms support the inter-affiliate transactions amendment to H.R. 238 sponsored by Rep. Frank Lucas (R-Okla.), which includes language to clarify exemptions from swap rules, as well as requirements for reporting, risk management, and anti-evasion as it relates to such transactions.

Businesses from all segments of the economy rely on derivatives to protect their core business activities from the risks they face in their day to day operations. Many businesses also use internal risk management transactions that, unlike market-facing derivatives between third parties, are entered into among affiliates of the same corporate group.

The Commodity Futures Trading Commission (CFTC) highlighted the risk management benefits of inter-affiliate transactions in a 2013 final rule exempting inter-affiliate transactions from clearing requirements:

*Executing swaps through one affiliate may enable corporate entities to concentrate their swap and hedging expertise and activity within a single affiliate, which reduces personnel costs. It also allows the corporation to net various positions before facing the market, thus reducing the number of market facing swaps, and the attendant fees. Moreover, these affiliate structures may not only reduce costs, but certain types of risk for the corporation as well.*

The CFTC has attempted to provide for different regulatory treatment through various rule exemptions and no-action letters, but there is a lack of consistency across regulatory requirements and among US regulators.

Rep. Lucas' amendment would clarify that internal risk management transactions should not be subject to initial margin, clearing and trade execution requirements, consistent with the CFTC's approach. To ensure appropriate safeguards are in place, the amendment would require that internal risk

management transactions involving swap dealers and major swap participants will need to be reported and subject to centralized risk management programs consistent with current CFTC regulations. And, affiliated parties to these transactions must exchange variation margin to the extent prescribed by current margin rules, and would be prohibited from being structured to evade Dodd-Frank.

We support this amendment as an important clarification regarding the appropriate regulatory treatment of internal risk management transactions that provides important safeguards without imposing undue costs.

cc: Members of the House of Representatives