



Managed Funds Association



Invested in America



asset management group



Safe, Efficient Markets



October 4, 2021

The Honorable Charles E. Schumer
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Mitch McConnell
Republican Leader
United States Senate
Washington, DC 20510

Dear Leader Schumer and Leader McConnell:

We have concerns about the impact S. 2621, *the Modernization of Derivatives Tax Act*, may have on derivatives markets and the end-users that rely on them.

Futures, options, and swaps—derivatives broadly—are important tools for commercial businesses to hedge price risk and free up capital for growth and innovation. They allow producers and commercial end-users to manage their businesses by mitigating commodity price risks, foreign currency risks, and interest rate risks, among others, and to keep prices low for consumers.

End-users of derivatives are companies that employ millions of workers in agriculture, manufacturing, energy, transportation, and finance – companies and sectors that form the backbone of the United States economy. Derivatives markets impact families shopping at the grocery store, saving for college, and preparing for retirement, as well as Main Street businesses daily.

Derivatives instruments are also used by asset managers, mortgage lenders, pension funds, and financial entities, for efficient portfolio management and diversification. These market

participants often compete with each other to provide competitive pricing for trades with commercial end-users.

The derivative markets both benefit and rely on a wide range of diverse participants that provide needed liquidity for efficient price discovery and risk management.

The Modernization of Derivatives Tax Act would substantially alter the tax treatment of derivatives and fundamentally alter the market structure governing these products, likely impacting equities markets in the process. The added complexity, uncertainty, and costs may discourage investors from participating in derivatives markets. These effects would impact commodity producers, end-users, and Main Street Americans that rely on deep, liquid, and efficient markets for risk management purposes.

For these reasons, we urge you not to include *The Modernization of Derivatives Tax Act*, which would dramatically upend the tax treatment of derivatives, in the budget reconciliation process.

Sincerely,

Futures Industry Association (FIA)

Commodity Markets Council (CMC)

Alternative Investment Management Association (AIMA)

Managed Funds Association (MFA)

Investment Company Institute (ICI)

Securities Industry and Financial Markets Association (SIFMA)

SIFMA Asset Management Group (SIFMA AMG)

FIA Principal Traders Group (FIA PTG)

U.S. Chamber of Commerce (USCC)

International Swaps and Derivatives Association (ISDA)

cc: The Honorable Ron Wyden, Chairman, Senate Committee on Finance

The Honorable Michael Crapo, Ranking Member, Senate Committee on Finance