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CENTER FOR CAPITAL MARKETS COMPETITIVENESS

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July 14, 2016

The Honorable Jacob J. Lew
Secretary
Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220

The Honorable Janet L. Yellen
Chair
Board of Governors of the Federal Reserve System
20th Street & Constitution Ave., NW
Washington, DC 20510

The Honorable Martin Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

The Honorable Thomas J. Curry
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

The Honorable Mary Jo White
Chair
Securities and Exchange Commission
100 F Street, NE Commission
Washington, DC 20549

The Honorable Timothy J. Massad
Chairman
Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581

Dear Secretary Lew, Chair Yellen, Chairman Gruenberg, Comptroller Curry, Chair White, and Chairman Massad:

The U.S. Chamber of Commerce (the "Chamber")[1] applauds the work conducted by U.S. financial regulators as part of the Working Group on Margin Requirements, particularly with respect to establishing a comprehensive framework and a timeline for the collection of initial margin and variation margin for uncleared derivatives. However, due to the actions of the European Union ("EU") and Switzerland, we are deeply concerned about the potential for serious disruption in the

[1] The Chamber is the world's largest business federation, representing the interests of more than three million businesses and professional organizations of every size, sector, and region.

global derivatives market in the coming months and urges you to act expeditiously with your foreign counterparts to avoid this outcome.

In particular, we are troubled by a deviation from a globally synchronized launch of the margin rules for uncleared derivatives, especially with respect to the United States and the EU. Without the consistent and harmonized implementation of initial margin rules for market participants, we fear that the derivatives markets could face disruption and fragmentation and U.S. businesses may be placed at a competitive disadvantage with respect to costs and liquidity.

As you know, global regulators agreed that a coordinated, market-wide approach on margin for uncleared derivatives would contribute to financial stability and provide end-users with sufficient time to adjust to new requirements and costs arising from posting additional collateral. Under this framework, several financial institutions must begin holding initial margin in September 2016 to minimize the potential for loss in a bilateral trade with a defaulted counterparty. We supported the development of these rules while working to ensure that policymakers avoided or corrected any unintended consequences on corporate end-users, which did not cause the financial crisis.

However, the EU's decision to delay the September 2016 implementation date threatens to fragment the international derivatives markets and places U.S. businesses at a disadvantage compared to its EU competitors. We also believe that this concern will extend to the next deadline of March 2017 to require the exchange of variation margin across all covered market participants regardless of their size.

Given these circumstances, we are concerned about proceeding with a fragmented and disjointed process for collecting margin and what it will mean for U.S. financial institutions and their customers. Businesses of all sizes rely on a robust and liquid derivatives market to manage their risks, which helps them improve their planning and forecasting and offer more stable prices to consumers. However, proceeding with the collection of initial margin in September could fragment the market and lead to long-term impacts on derivatives markets by bifurcating the market and making it more difficult and expensive for end-users to hedge. These effects could also spill over to the March 2017 deadline for variation margin, which will impact a wider group of "financial" end-users that act as counterparties to swap dealers. These costs will unfortunately spread to corporate end-users and may change substantially depending on the progress the EU makes on its initial and variation margin rules and when those rules will actually come into effect.

As a result, we strongly urge you to work closely with your foreign counterparts to mitigate unnecessary fragmentation in the collection of margin around the world. The uncertainty caused by the EU's actions, as well as the unknown consequences from Brexit, may usher in a global period of uncertainty with potentially significant consequences on American businesses. Moving forward on the collection of initial margin without the rest of the world may result in such fragmentation and would only add complexity to that uncertainty and disadvantage the competitiveness of U.S. businesses.

Sincerely,

Tom Quaadman

cc: Members of the House Committee on Agriculture
Members of the House Committee on Financial Services
Members of the Senate Committee on Agriculture, Nutrition and Forestry Committee
Members of the Senate Committee on Banking, Housing, & Urban Affairs