

DERIVATIVES REFORM – IMPACTS UPON END-USERS

MYTH: The Coalition for Derivatives End-Users (CDE-U) represents the interests of Corporate America and Commercial End-Users.

REALITY: Financial Players have significant representation on the Steering Committee and the general membership of CDE-U.

- While 173 organizations signed their letter in Fall 2009, only 8 signed their letter last week
- The policies CDE-U advocates show that they have become very concerned with relaxing the proposed regulations for Financial Players and Swaps Dealers

MYTH: Commercial End-Users need an expanded exemption from clearing requirements.

REALITY: In the current bill, Commercial End-Users receive a full and complete exemption when using derivative contracts to hedge their commercial risk

- Almost all of the language changes that CDE-U advocates in their latest letter would expand the current commercial end-user exemption to financial institutions such as hedge funds, insurance companies, investment banks. This expansion would benefit Wall Street at the expense of Main Street.

MYTH: Swaps Dealers will pass on their costs to Corporate America and ultimately the American consumer, therefore regulation of Swaps Dealers should be relaxed.

REALITY: In the current bill, the transparency which clearing brings, will result in dramatic cost savings for Commercial End-Users

- Swaps dealers must be strongly regulated to ensure we do not experience another financial meltdown, the huge costs of the last meltdown were born by Corporate America and the American consumer
- The transparency which results from clearing will narrow swaps dealers outsized profit margins since Commercial End-Users will not be in the dark with regard to pricing. Currently, swaps dealers make billions of dollars each year because commercial end-users are unable to see the spread between the bid and ask prices of over-the-counter derivative contracts. Clearing will provide much needed transparency and actually reduce the cost of hedging for commercial end-users.
- Jamie Dimon has said that J.P. Morgan stands to lose up to \$2 billion due to this regulation. If he could pass on his costs he would not lose anything.

MYTH: The exemptions proposed by the Coalition of Derivative End-Users would only affect 10-20% of the OTC derivatives market.

REALITY: If all CDE-U's suggestions were implemented it could leave up to 66% of the OTC derivatives market without a clearing or trading requirement.

- Because they eliminate the category of Major Swap Participant and exempt Financial Players from clearing and trading requirements they have allowed insurance companies (like AIG), hedge funds (like Long Term Capital) and other Financial Players to escape regulation almost entirely.
- The Bank for International Settlements estimates that Financial Players (that are not Swaps Dealers) account for 44%-57% of outstanding notional value. On top of the 9%-17% that true End-Users represent this means that 60%-66% of all swaps would be exempted from regulation.

MYTH: The Coalition for Derivatives End-Users supports enhanced transparency and reduction of systemic risk.

REALITY: By advocating for a dramatic reduction in the number of swaps that have to clear, the CDE-U's proposals would result in diminished transparency and an increase in systemic risk.

- True End-Users want to see the financial system established on a solid regulatory bedrock so that America can prosper without bubbles and meltdowns over the long term.