Proposal: 1629 (AF22) Standardized Approach for Calculating the Exposure Amount of Derivative Contracts

Description:

Comment ID: 133495

From: End User of Commodity Derivatives, Troy Madeley

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Subject: R-1629 Standardized Approach for Calculating the Exposure Amount of Derivative Contracts

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Comments:

Date: Feb 14, 2019

Proposal: Standardized Approach for Calculating the Exposure Amount of Derivative Contracts [R-1629]
Document ID: R-1629
Revision: 1
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Your comment: I work for a US energy company that is active in helping the US become an energy independent nation, free from the need to rely on OPEC, Russia, or other nations for energy to meet the demands of our country. We play a role in keeping energy costs in the US very affordable and much lower than many other countries. We are an end user of commodity derivatives and actively use them to stabilize our cash flows and protect target returns on our investments. Our ability to protect our investments through these risk management practices is of critical importance to us continuing to help the US become energy independent and continuing to keep energy costs low. We are very concerned about the impact SA-CCR will have on our ability to use commodity derivatives. If SA-CCR is implemented as planned, here are some of our concerns regarding the potential impacts to us: 1) Rule reduces the benefit of hard-fought provisions to allow end users to trade derivatives on an unmargined basis 2) The additional costs of the rule would ultimately be born by end users and these costs would be substantial based on how the rule is currently constructed to the point that our commodity hedging strategy may not be effective in protecting the returns on our investments 3) If we can't effectively protect the returns on our investments, we will make fewer investments. If you play this logic through to the entire industry the outcome is lower supply, higher energy costs, and a longer pathway to US energy independence 4) The dramatically higher capital requirements associated with hedging trades could lead to a decrease in liquidity of the markets 5) Dealers may be forced to leave the derivatives markets due to the higher costs which would increase concentration, credit, and volatility risks We ask that the agencies appropriately weigh these end user costs when considering whether to move forward with this ruling or not. Best, Doug Madeley Managing Director, Finance Oasis Petroleum Inc.