



## **House passes Peterson-Frank amendment to tighten OTC derivatives regulation**

**By Agri-Pulse Staff**

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Washington, Dec. 10 – The House has passed a key amendment to the financial regulatory reform bill to impose regulatory controls over the largely unregulated over-the-counter derivatives market for the first time. The bipartisan amendment to H.R. 4173, the Wall Street Reform and Consumer Protection Act of 2009, offered by House Agriculture Committee Chair Collin Peterson (D-MN) and House Financial Services Committee Chair Barney Frank (D-MA) was passed on a voice vote.

The amendment establishes a central clearing requirement for participants in the over-the-counter derivatives market while preserving the use of derivatives for end users to hedge price risks associated with their businesses.

“Bringing these unregulated credit derivatives under the central clearing model that has served the regulated futures markets well for decades will increase transparency in the marketplace and reduce the systemic risk that over-the-counter derivatives can pose to the economy if left unchecked,” Peterson said. “Our amendment will hold swap dealers like big banks accountable to new standards for capital, margin, and business conduct requirements and will benefit end users’ ability to continue to effectively hedge their price risk by not submitting them to onerous cash collateral requirements.”

Unregulated OTC derivatives like credit default swaps played a significant role in last year’s financial crisis. A trading unit of failed insurance giant AIG triggered a massive taxpayer bailout when it was unable to fulfill its obligations to other institutions on tens of billions of dollars worth of credit default swap contracts. Other large institutions that failed or were taken over by the government like Lehman Brothers and Bear Stearns were also heavy users of credit derivatives.

The Peterson-Frank amendment would establish a central clearing requirement for swaps transactions between dealers and large market participants that are accepted by a clearinghouse. Non-cleared swaps must be reported, with major participants and dealers adhering to strengthened capital and margin requirements.

The amendment exempts commercial end users from the clearing requirement. These firms, such as airlines, manufacturers, and other small- to medium-sized businesses, often use derivatives markets to hedge their price risk.

Additional provisions in the amendment will:

- Require regulators to define the types of risk a company may hedge and still remain eligible for the limited exception to clearing.
- Help resolve jurisdictional issues between the CFTC and SEC regulators which have compromised past efforts at financial regulation.
- Strengthen confidence in trader position limits on physically deliverable commodities as a way to prevent excessive speculative trading.
- Call for international harmonization by requiring foreign boards of trade to share trading data and adopt speculative position limits on contracts that trade U.S. commodities similar to U.S.-regulated exchanges.

The Peterson-Frank amendment was the result of an agreement resolving separate versions of derivatives legislation passed by the House Agriculture and Financial Services Committees earlier this year. The amendment also builds on legislation increasing transparency in over-the-counter markets from the 110th Congress that passed the House with overwhelming bipartisan support.

“This legislation reflects more than two years of public hearings and a lot of bipartisan work on derivatives and their effect on the economy,” Chairman Peterson said. “The passage of today’s amendment means we are a step closer to finally shining some light on the previously dark markets for over-the-counter derivatives and ensure that they will never again threaten the stability of our financial system.”

The House is expected to complete debate on amendments and final passage of H.R. 4173 on Friday.

More information on OTC derivatives legislative is available on the House Agriculture Committee website at: <http://agriculture.house.gov/inside/legislation.html>.

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