Constellation Brands

February 15, 2019

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E–218
Washington, DC 20219

Robert E. Feldman, Executive Secretary
Attention: Comments/RIN 3064–AE80
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Via Electronic Submission

Re: Comment to Notice of Proposed Rulemaking –*Standardized Approach for Calculating the Exposure Amount of Derivative Contracts* [Docket No. R–1629 and RIN 7100–AF22; RIN 3064–AE80; Docket ID OCC–2018–0030]

Constellation Brands, Inc. ("CBI") welcomes this opportunity to submit these comments in response to the Notice of Proposed Rulemaking (the "NPR") issued by the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Office of the Comptroller of the Currency (the "OCC") and the Federal Deposit Insurance Corporation (the "FDIC" and, together, with the Federal Reserve and the OCC, the "Prudential Regulators") addressing proposed changes to the standardized approach for calculating the exposure amount ("SA-CCR") of derivatives contracts conducted by our large bank counterparties.[1]

CBI is headquartered in the U.S. and is an international producer and marketer of beer, wine and spirits with operations in the U.S., Mexico, New Zealand, Italy and Canada with more than 100 brands in our portfolio. In the U.S., we are the largest multicategory supplier (beer, wine and spirits) of beverage alcohol. We are the third-largest beer company in the U.S. market and the world's leading premium wine company.

[1] Notice of Proposed Rulemaking, *Standardized Approach for Calculating the Exposure Amount of Derivative Contracts*, 83 Fed. Reg. 64660 (December 11, 2018).

CBI's business relies on cost-efficient access to derivatives instruments in order to support its commercial operations and hedge related risks. CBI therefore submits these comments to the NPR to ensure that the Prudential Regulators are aware of and adequately consider CBI's and related businesses interests. By creating higher transaction costs for our counterparties, CBI is concerned that the NPR would reduce our access to cost-efficient hedging for such transactions, would increase overall market risks and costs, and would lead to greater market instability. We strongly encourage the Prudential Regulators to create an exemption to the SA-CCR calculation for derivatives transactions with commercial end-users in order to avoid the potential knock-on effects and costs that the NPR may have on CBI.

A. The NPR's effect on Constellation Brands, Inc.

Our production costs and foreign transactions are subject to inherent market fluctuations. In order to combat the volatility impact to our underlying exposures and ensure stable and predictable input costs to our products, we enter into numerous derivative contracts to help mitigate commodity, foreign exchange and interest rate risks. For example, we often enter into forward derivative contracts ranging from 1-month to 5-years to help mitigate these various risks.

CBI and other commercial end-users are currently exempt from the clearing and margin requirements imposed on our counterparties. These exemptions serve the important need of ensuring that commercial businesses in the United States are able to adequately and efficiently mitigate their commercial risks through entering into derivatives transactions. The NPR would undermine these exemptions by imposing excessive capital restrictions on our counterparties through the proposed SA-CCR calculations.

The NPR would take an overly prescriptive approach. The proposed SA-CCR calculations would have drastic cost and liquidity impacts on commercial end-users and ignores the current market practice of accounting for these risks in the pricing terms of contracts. The NPR ignores the commercial benefits of corporate guarantees that many businesses like ours employ and provides a strict preference and offset for cash margining. Many commercial businesses, such as ours, see cash-margining as impractical and economically inefficient. Retaining cash against the notional value of their swaps would unnecessarily lock-up cash that could otherwise be used to reinvest in our business and create jobs. Because of these considerations, CBI primarily engages in guaranty-based arrangements with our banking counterparties, a practice which Congress sought to encourage with enactment of the end-user exception and exemption from uncleared margin requirements.

For those reasons, CBI strongly encourages the Prudential Regulators to create an exemption to SA-CCR in order to ensure that the NPR does not undermine and circumvent legislatively prescribed benefits for businesses like ours.

B. The NPR's effect on the derivatives market.

Our commercial hedging needs are best addressed by deep, competitively priced markets. CBI is concerned that implementation of the amended SA-CCR would result in decreased overall market depth. By compounding burdens on the activities of our counterparties, the NPR would serve to further reduce the number of large bank counterparties (and their affiliates) willing to engage in derivatives transactions with commercial businesses like ours.

CBI is particularly concerned that the proposed adjustments under SA-CCR would have the effect of creating an inefficient marketplace. An increase in the exposure amount placed on our counterparties would inevitably be passed along to CBI in the form of higher transaction costs. In addition to the likelihood of higher pass-through costs necessary to offset SA-CCR calculations, we are concerned that the NPR also has the potential to create a derivatives marketplace, which would mandate cash-margining and ultimately may force our counterparties out of the market altogether. Either of these conclusions would hurt our ability to properly manage our business risks and would therefore harm CBI's commercial operations.

C. **The NPR's effect on our business abroad.**

CBI is also concerned that, in light of foreign regulatory efforts to implement SA-CCR, the adoption of the NPR may be premature. For example, the European Union has yet to finalize its version of SA-CCR and an adoption of the NPR in the United States, absent equivalent requirements abroad, would likely have the effect of placing CBI at a significant disadvantage to its foreign competitors in the European Union. The indirect, incremental costs imposed by SA-CCR that CBI would experience would not be imposed on similar derivatives transactions entered into by our foreign competitors. These costs would be unique to U.S. enterprises, affording competitors an economic advantage solely as a result of their foreign banking counterparties not being subject to SA-CCR calculations. Therefore, CBI strongly encourages the Prudential Regulators to consider the importance of fostering an economically level-playing field for U.S. businesses like ours with respect to hedging commercial risks.

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For the foregoing reasons, we strongly encourage the agencies to consider the NPR's indirect impact on derivatives transactions with commercial end-user entities such as CBI, as well as generally reconsider the appropriateness of imposing SA-CCR calculations on derivatives transactions that would otherwise qualify for the end-user exception. We believe the NPR would directly increase the cost of managing commercial risks and threaten the overall stability of our operations.

We appreciate your consideration of these comments and welcome the opportunity to discuss these observations on the NPR with your staff. If you have any questions or would like any additional information, please do not hesitate to contact Sandy Dominach at 585-678-7181 or Sandy.Dominach@cbrands.com.

Very Truly Yours,

Sandy Dominach
SVP, Treasurer
Constellation Brands, Inc.