



March 18, 2019

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Legislative and Regulatory Activities Division
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Federal Deposit Insurance Corporation
Robert E. Feldman, Executive Secretary
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Board of Governors of the Federal Reserve System
Ann E. Misback, Secretary
20th Street and Constitution Avenue NW
Washington, D.C. 20551

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

To whom it may concern:

The Independent Petroleum Association of America (“IPAA”) submits the following comments on the above-referenced proposal that would revise the standardized approach for calculating the exposure amount (“SA-CCR”) of derivatives contracts of financial holding companies. IPAA opposes the proposal, as written, as it would undermine the protections provided to end users of derivative products under Dodd-Frank and ensuing regulations implemented by the Commodity Futures Trading Commission (“CFTC”). Under the proposed rule, IPAA member companies most likely would be required to post significantly more capital by the companies’ bank counterparties. IPAA urges reconsideration of the proposed metrics under SA-CCR to ensure that the Proposed Rule does not negate the legislative provisions that recognize the benefits of the end-user margin exemption and the end-user clearing exception.

IPAA represents the thousands of companies that drill 95 percent of America's onshore and offshore oil and natural gas wells. America’s independents produce 54 percent of American oil and produce 85 percent of American natural gas. To manage the risk associated with finding and producing natural gas and oil, IPAA members use derivatives.

IPAA supports the letter submitted by the Coalition for Derivatives End-Users (“Coalition Letter”) and asks that any final rule regarding SA-CCR should provide a clear exemption for derivatives of a

counterparty that: (i) satisfies the criteria to qualify for an exception from clearing under section 2(h)(7)(A) of the Commodity Exchange Act (“CEA”) and implementing regulations; (ii) satisfies the criteria in section 2(h)(7)(D) of the CEA and implementing regulations; (iii) qualifies for an exception from clearing under a rule, regulation, or order that the CFTC has issued pursuant to its authority under section 4(c)(1) of the CEA concerning cooperative entities that would otherwise be subject to the requirements of section 2(h)(1)(A) of the CEA; (iv) is otherwise exempt from the clearing requirements of section 2(h)(1)(A) of the CEA; or (v) is exempt from the initial and variation margin requirements imposed by rules adopted pursuant to sections 4s(e)(2)(A)(ii) and 4s(e)(B)(ii) of the CEA. Such relief would better align the Proposed Rule’s objectives with the current regulatory regime and congressional intent for over-the-counter (“OTC”) derivatives markets.

The Coalition Letter provides an example of the potential financial burden that an upstream oil company could face when implementing a one-year oil swap. The proposed rule could result in a 460 percent increase in the exposure amount that the counterparty to the crude oil company must retain capital against. It is possible that, given these overly burdensome capital requirements, many banks would decline to enter into these swaps. The burden on end users would then be compounded by less liquidity in the swaps market, with fewer market participants.

Increased costs to end users for entering into derivatives transactions will ultimately be borne by American consumers. Either the increased costs of hedging will factor into a producer’s costs, or the increased costs will make hedging prohibitively expensive. Forcing companies to set aside risk management tools could yield greater volatility, which also impacts companies’ resources to reinvest into the business of finding and producing American energy.

IPAA appreciates the opportunity to comment on the Proposed Rule and offer the perspective of America’s independent oil and natural gas producers. IPAA urges reconsideration of the proposed rule for better calibration of supervisory factors and for an end-user exemption from SA-CCR regulations, as advocated in the Coalition Letter.

Respectfully submitted,



Susan W. Ginsberg
Vice President of Crude Oil and Natural Gas Regulatory Affairs