agriculture.house.gov

Committee on Agriculture
Frank D. Lucas, Chairman

1301 Longworth House Office Building | Washington, DC | 202-225-2171

H.R. 2779
Treatment of Inter-Affiliate Swaps

Sponsored by Reps. Steve Stivers and Marcia Fudge

Summary:
Ensures that transactions between affiliates within a single corporate group are not regulated as swaps.

Why:
Regulators are considering requiring that inter-affiliate swaps are treated the same as all other swaps—requiring margin, clearing, and price reporting.

Many corporations limit the number of their affiliates that can enter into swaps with outside counterparties. Under this business model, one affiliate within the corporation transacts swaps on behalf of the other affiliates. The risk offsets from those swaps are then transferred back to the affiliate that required the swap through an inter-affiliate swap.

Inter-affiliate swaps allow corporations to take advantage of a centralized model with derivatives expertise residing in one affiliate.

Regulating inter-affiliate swaps the same as other swaps provides no additional risk-reduction, but it does substantially raise costs for businesses.

H.R. 2779 clarifies that inter-affiliate transactions are not to be regulated as swaps.

Double Margin and Other Problems

- If inter-affiliate transactions are regulated as swaps, companies may be "double-margined." The parent company would have to pay margin on the external swap, and then the affiliate would have to do the same when the swap is allocated internally.
- This provides no additional reduction in risk.
- H.R. 2779 ensures that companies don't face double margin, but ensures that inter-affiliate transactions are conducted in a transparent fashion.
- All inter-affiliate transactions would be reported to a central swap data repository so regulators would have access to relevant data.