

Chatham Financial Comments on Proposed OTC Derivatives Regulation

Yesterday, Chatham Financial, a global hedge consulting firm based in Pennsylvania, sent a letter to U.S. policymakers regarding the proposed regulation of the over-the-counter (OTC) derivatives market. In the letter, Chatham's President and CEO, Mike Bontrager, first expresses support for the objectives that U.S. Treasury Secretary Geithner outlined in his May 13th letter to Senate Majority Leader Harry Reid, specifically noting the need for safeguards to protect against the "reckless practices of certain institutions." Chatham also agrees with a central theme of proposals that any new regulation should focus on the participants in the OTC derivatives market that are large enough to pose a risk to the financial system. Mr. Bontrager raises concerns over any "indiscriminate implementation" of regulations that could adversely affect "tens of thousands of businesses throughout the U.S. and around the world."

The letter lists concerns over regulations that might limit access to customized derivatives or impose onerous collateral requirements on the American businesses that use OTC derivatives responsibly to hedge fluctuations in interest rates, foreign currency exchange rates, and commodity prices. These concerns are directed at certain proposals mandating clearing and exchange-trading for all OTC derivatives. "Forcing all derivatives onto exchanges or into central clearing is not the answer," says Bontrager.

The letter cautions that companies forced to use standardized derivatives could "face significantly increased earnings volatility and accounting complexity and may be unable to qualify for hedge accounting treatment" under FAS 133. Discussing the letter, Clark Maxwell, director of Chatham's accounting consultancy, commented that, "We're concerned that the accounting for derivatives could become even more complicated and may discourage prudent risk management. The benefits of customizable derivative contracts that precisely hedge a company's risks are significant for the vast majority of end users."

Mr. Bontrager notes, "Our hope is that in addressing the systemic risks and appropriate safeguards that need to be put in place, the ultimate impact on American businesses will not be overlooked. We believe that affordable access to customized methods of hedging is vital to companies whose investments are often dependent on their ability to manage risks and reduce uncertainty."

Chatham Financial is the largest independent interest rate and foreign currency hedge consulting firm. With offices in suburban Philadelphia, Denver, London, Singapore, and Krakow, Chatham serves over 1,000 leading private and public companies worldwide. Chatham is employee-owned and is not associated with any bank.

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