Proposal:	1629 (AF22) Standardized Approach for Calculating the Exposure Amount of Derivative Contracts
Description:	

Comment ID:	133510
From:	CNX Resources Corporation, Chad Griffith
Proposal:	1629 (AF22) Standardized Approach for Calculating the Exposure Amount of Derivative Contracts
Subject:	R-1629 Standardized Approach for Calculating the Exposure Amount of Derivative Contracts

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Comments:

Date:Feb 15, 2019

Proposal:Standardized Approach for Calculating the Exposure Amount of Derivative Contracts [R-1629]
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Your comment: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]

CNX Resources Corporation ("CNX"), an independent exploration and production company, appreciates the opportunity to comment on the notice of proposed rulemaking, Standardized Approach for Calculating the Exposure Amount of Derivative Contracts (Federal Reserve System, Docket No. R-1629 and RIN 7100-AF22). The proposed rule would implement a new standardized approach for counterparty credit risk ("SA-CCR").

As an end-user of bank derivative instruments to manage exposure to commodity prices (primarily natural gas), CNX is strongly opposed to SA-CCR. As proposed, SA-CCR would increase the all-in pricing cost of our derivatives and greatly increase the risk exposure of our hedging activities as the additional costs of the proposed rule to banks would ultimately be borne by end users.
Commercial end users would appear to be disproportionately impacted by SA-CCR. A bank's swap transactions with commercial end users are generally exempt from the bank's regulatory margin requirements. The current exposure methodology does not distinguish between margined and unmargined derivative contracts; SA-CCR does, and the agencies anticipate that the proposed rule could increase the exposure amount of unmargined derivative contracts across all asset classes by approximately 90 percent.
CNX's strong hedge position and vigorous hedging program are an integral and vital part of our short- and long-term financial plan, including our capital expenditure budget. If we were required by banks to post cash margins or letters of credit as a result of SA-CCR (which is not currently required of CNX), our liquidity position would be adversely affected. In addition to increasing the cost of our derivatives

and decreasing the protection they offer, CNX strongly believes that market liquidity for end-user derivatives will materially decrease thereby reducing the number of counterparties offering natural gas derivative products. Fewer dealers in the types of derivatives CNX utilizes will result in a much higher credit risk profile for CNX, which could also adversely affect our liquidity and financial positions.

The greater price risk and the higher credit risk exposures mentioned above will increase CNX's hurdle rate causing a reduction in our drilling and completions ("D&C") expenditures. Such lower D&C spending, not only for CNX but also for other affected E&P companies, will lower gas reserves and production; and the lower gas supply will mean higher energy prices for American consumers. In addition to adding volatility and uncertainty to CNX's future earnings and cash flow (traits that our shareholders are not accustomed to), we anticipate that the proposed rule would increase our borrowing costs, possibly affect our borrowing capacity under our bank credit facility and lower our market value.

Simply stated, CNX believes that the SA-CCR would make future hedging, if available, uneconomical for CNX and have broader negative economic ramifications. CNX believes derivative transactions with end users should be exempted from SA-CCR.

We hope you find our comments useful and relevant, and we would be pleased to discuss our comments with you.
Respectfully submitted,
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CNX Resources Corporation