Hearing on Assessing the Regulatory, Economic and Market Implications of the Dodd-Frank Derivatives Title before the House Committee on Financial Services
Statement of Craig Reiners
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February 15, 2011

Good morning, Mr. Chairman and members of the Committee, my name is Craig Reiners. I am the Director of Risk Management for MillerCoors. I am also testifying on behalf of the Coalition for Derivatives End-Users ("Coalition"). The Coalition represents thousands of companies across the United States that employ derivatives to manage risks they face in connection with their day-to-day businesses. We are pleased to have the opportunity to offer perspectives on rulemakings at the CFTC, SEC and the prudential regulators to implement the Dodd-Frank derivatives title.

MillerCoors is a U.S. brewing company headquartered in Chicago, Illinois. MillerCoors will brew and ship over 67 million barrels of beer annually within the United States. In 2010, total sales reached $7.6 billion. MillerCoors employs 9,000 people, all of whom reside in the United States. We have eight manufacturing facilities located in Irwindale, CA, Trenton, OH, Eden, NC, Fort Worth, TX, Albany, GA, Elkton, VA, Golden, CO, Milwaukee, WI, as well as the Leinenkugel's craft brewery in Chippewa Falls, WI, and two microbreweries, the 10th Street Brewery in Milwaukee and the Blue Moon Brewing Company at Coors Field in Denver. We sell our products in all fifty states and export in various international markets. MillerCoors is the recent combination of two of the oldest brewing companies in the United States, started by the Coors and Miller families over 150 years ago, both true American icons. MillerCoors vision is to create America's best beer company by driving profitable industry growth. MillerCoors insists on building its brands the right way through brewing quality and through responsible marketing, sales, environmental conduct and community impact.

We support this Committee's efforts to help ensure that derivatives markets operate efficiently and are well-regulated. We agree that proper regulation should reduce systemic risk and increase transparency in the over-the-counter ("OTC") derivatives markets. At the same time, the prudent use of derivatives by end-user companies, such as MillerCoors, does not generate risk or instability in the financial marketplace and played no role in the financial crisis. On the contrary, these risk management tools are critical to reducing commercial risk and volatility in our day-to-day business operations, allowing us to create sustainable and prosperous businesses.

MillerCoors uses derivatives for the sole purpose of reducing commercial risk associated with our business. At MillerCoors, we brew beer, and our commitment to our customers is to produce the best beer in the United States and to deliver it at a competitive price. In order to achieve these goals, we must find a way to mitigate and prudently manage our inherent commodity risks. I believe the prudent use of derivatives offers end-users of physical commodities the critical risk management tools to provide a necessary degree of predictability to our earnings. The derivatives our organization has approved for use provide the tools to manage volatility intrinsic to commodities, which allows us to manage cash flow expectations within reasonable parameters. Our single largest commodity exposure is to aluminum. Our agricultural risks include malting barley, corn and hops. Our energy risk portfolio includes coal, natural gas, deregulated electricity and diesel fuel. This annual commodity spend of over $2.8 billion must be prudently managed. In order to properly manage this significant risk, we created a strict Board-approved commodity risk policy that clearly forbids speculation. This policy allows us to use OTC swaps to precisely match the timing and prices of our complex manufacturing and distribution process. For example, we exactly match our OTC swaps for aluminum with our actual use of cans over the same time frame. This risk management technique allows us to prudently manage our costs and reduce price volatility. We have used this risk management process both prior to and since the inception of MillerCoors with no adverse consequences. In fact, we would create significantly more price volatility in our business by not hedging our business risks. We believe that end-users generally share the concern that if the cost of hedging our risks rises significantly, entering into swaps may no longer be economical. The result could be a reduction in risk mitigation through hedging, which, ironically, could increase risk and exposure to market volatility.

We believe that a broad end-user exemption is critically important as the CFTC promulgates final rules. During the regulatory process, we have sought to ensure that the exemption created by Congress would not be unduly narrowed. In particular, we have urged regulators to give thoughtful consideration to key definitions to ensure that end-users like us are not saddled with bank-like regulation.

I would like to address the prospect of margin being imposed on future— or even previously entered— contracts. This requirement would be particularly burdensome to end-users like MillerCoors. Retroactive application of a margin requirement would upset the reasonable expectations we had when we entered our existing risk management contracts. We engaged in extensive negotiations with our financial counterparties to develop our ISDA (International Swap Dealers Association) agreements, which established our expectations for the future. The negotiated arrangements already include a credit cost that we have paid, so retroactive application of margin requirements would make us pay twice for the same credit risk.

A requirement for end-users like MillerCoors to post margin to its counterparties would have a serious impact on our ability to invest in and grow our businesses. A 2010 Business Roundtable survey demonstrates that the imposition of a 3 percent initial margin requirement on S&P 500 companies alone would drain $269 million in liquidity per company and could reduce capital spending by $5 to $6 billion per year, causing a loss of 100,000 to 120,000 jobs. A new survey from the Coalition for Derivatives End-Users found similar results. For MillerCoors, the liquidity drain would be at least double the number stated in the survey. In these challenging times, as we emerge from the worst recession since the Great Depression, our ability to grow our business would be seriously hampered.

MillerCoors urges the financial regulators to avoid creating rigid and expensive trading requirements that unintentionally could cause companies either to retain more risk or seek risk management alternatives overseas. By utilizing OTC swaps, we are able to customize our hedges to perfectly match the underlying exposure. If MillerCoors were required to use only standardized or exchange-traded hedge products, we would not create the risk offset we currently achieve today, and this would result in both accounting and real economic volatility. Though end-users are not directly subject to the trading requirements, excessive capital requirements imposed on our counterparties aimed at forcing end-users onto regulated exchanges, execution platforms and clearinghouses could significantly increase our costs. Capital requirements should be appropriate for the risk of the product, and should not be increased to punitive levels so as to deter the prudent use of non-cleared OTC derivatives by end users. The unintended consequence of margin requirements applied to end-users or excessive capital requirements applied to our financial counterparties could be to reduce the risk management activity of end-users. Such a result could actually increase systemic risk or even push transactions offshore. Neither of these would be favorable to our economy. Such policies are not necessary for regulators to accomplish Congress' objectives of containing systemic risk and increasing transparency in the OTC derivatives market.

Additionally, because of this market's importance to main street businesses like MillerCoors, we believe it is critical to get the regulation right. The current rulemaking timeline is compressed, which may force regulators to prioritize speed over quality. Doing so could hurt companies' ability to manage their risks and would increase uncertainty. We urge Congress to provide regulators with more time for rulemaking, *and* for regulators to allow market participants sufficient time for implementation. This is critical to ensuring that market participants have ample opportunity to provide useful feedback, and to ensuring this important market continues to function with minimal disruption. Chairman Gensler has reached out to businesses for input on a realistic implementation timeline. That is a positive step and one that we appreciate greatly. However, developing a workable implementation timeline still would not fix the problem of too many rules being promulgated over too little time. The statutory effective date must be extended for end-users to be able to participate meaningfully in the regulatory development process.

As regulators go about the important work of finalizing these rules, it is imperative that they do so in a manner that does not break those processes and systems that functioned well before and during the financial crisis. I am confident that the way in which these products are utilized by our company and other end-users benefits the economy by reducing volatility and increasing stability. Though it may be tempting to view all derivatives as risky financial products that were central to the credit crisis, we must remember that these are important tools upon which thousands of companies depend to manage risks in the real economy. On behalf of MillerCoors and the Coalition, I thank the Committee for allowing me to appear today to discuss these important issues, and I am happy to answer any questions that you may have.

United States House of Representatives
Committee on Financial Services

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Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Craig R. Reiners	MillerCoors LLC Coalition for End-Users
3. Business Address and telephone number:	
[redacted]	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☒ No	☐ Yes ☒ No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
7. Signature: Craig R Reiners	

Please attach a copy of this form to your written testimony.