



August 6, 2009

TO: CMC Membership

FR: Government Affairs Office

RE: Contact with Policymakers during August Recess

Congress has returned home for August recess. As news reports of actions by participants in the health care debate are showing, this provides an excellent opportunity for CMC members to make their views directly known to their legislators. Congressmen and Senators will host a variety of town hall meetings, listening sessions, kitchen cabinet meetings and other constituency outreach sessions in their districts and we urge you to take this opportunity to make your views directly known on a personal basis. Input received during August will directly impact how your legislators vote on key issues after they reconvene and resume work in September. This legislation will move this fall and we will need your continued input and support throughout the process.

To provide appropriate oversight and transparency for our markets, CMC advocates for specific policy in 5 primary areas:

- 1) Enhance market transparency;
- 2) Increase CFTC resources;
- 3) Preserve deep and liquid commodity markets to ensure reliable price discovery;
- 4) Provide a systemic view of all markets; and
- 5) Preserve equitable tax treatment for futures and options transactions.

We urge you to make time in your busy schedules to meet with your legislators and emphasize these points on a personal basis. Your contacts now will provide a base for additional CMC input later this fall as the legislative and regulatory agendas intensify.

Following are key talking points regarding a number of pocketbook issues that will directly impact you. Please use these when discussing the issues with your legislators and let us know if you need more extensive information on any specific issue.

Contact Christine Cochran at ccochran@cmcmarkets.org or Chuck Lambert who will be temporarily working for CMC during Christine's absence later this fall, at clambert@cmcmarkets.org. To reach us by phone call (202) 842-0400 and dial extension 101 for Christine or 109 for Chuck.



Foster Responsible Markets

As an organization representing the interests of futures and option exchanges and their participants, the Commodity Markets Council's objective is to ensure fair and efficient markets that work effectively for everyone – end users, market participants, exchanges, the general public, and regulators.

Tested by unprecedented challenges over the last several months, regulated exchanges have performed extremely well. Ensuring they can continue to provide transparent and liquid markets is vital to sustaining the slowly emerging economic recovery.

1. Enhance Market Transparency

Exchange-traded markets are transparent and regulated. Reform measures that provide additional transparency through reporting and clearing, should target less transparent markets. Additional transparency will provide useful information and allow regulators to effectively police commodities markets.

Detailed reporting is necessary for greater market transparency and accountability. CMC was the industry's leading advocate to disaggregate data relative to index fund positions in the agricultural markets on the CFTC's *Commitment of Traders Report*. We support the extension of disaggregating data of futures positions into all physical futures markets.

- CMC supports increased reporting of certain OTC transactions to improve CFTC's ability to see the entire market and we will gladly work with the CFTC to identify these transactions.
- CMC supports coordination and information sharing among international regulators. We believe this is an important step toward greater international regulatory cooperation in a global industry.

2. Increase CFTC Resources

Encourage Congress to ensure that CFTC has adequate resources and is fully staffed. Increase the Commission's resources to strengthen CFTC's oversight of regulated exchanges and linked markets.

Expanded monitoring and surveillance are critical to maintaining public confidence in the fairness and equity of futures markets and advances public interest by preventing situations from causing harm to the markets, their users, and the public.

3. Preserve Deep and Liquid Commodity Markets to Ensure Reliable Price Discovery

The businesses of all CMC members depend on efficient and properly functioning markets. Effective market oversight and greater transparency ensure market confidence and participation that are important components to deep and liquid markets. US markets must continue to serve as global benchmarks for world commodities markets.

- One of the fundamental purposes of a futures market is price discovery and liquidity is essential to efficient price discovery. Futures markets grew immensely during the last decade because their products are relevant to international and domestic trading communities – including institutional investors. The increase in volume has boosted liquidity, aided price discovery, and enhanced market efficiency.



- Speculators play an important role in commodity markets by providing liquidity necessary for efficient market operation.
- Investment activity by institutional investors and index funds is legitimate “financial hedging” and contributed to the overall success experienced by the commodity industry over the last decade. CMC urges CFTC and lawmakers to avoid measures that could drive these participants from the markets.
- The exchanges in conjunction with the CFTC should have frontline authority to evaluate and set position and accountability limits.

4. Provide a Systemic View of All Markets

CMC supports creating a systemic view of the market to protect the entire financial system against broad risks. Such oversight should include the ability to create a comprehensive view of institutional risk portfolios in securities, commodities, futures, credit instruments, OTC traded and other exchange traded instruments. CMC also supports CFTC, SEC, and banking regulators maintaining front-line responsibility to take necessary and appropriate action to maintain public confidence in fair and efficient markets.

5. Preserve Equitable tax Treatment for Futures and Options Transactions

“60/40” Repeal: CMC strongly opposes any proposal to repeal the long-standing “60/40 Rule,” which allows market makers to pay a blend of capital gains and ordinary tax rates on their income for an effective rate of 23 percent. The 60/40 tax treatment was part of a balanced tax formula enacted nearly three decades ago to preserve the role of the market maker after the mark-to-market tax regime was implemented. Any proposal to repeal 60/40 would upset this balance and impair liquidity in U.S. futures markets. As a result the cost of government debt would increase as the ability of participants in treasury market auctions to hedge their exposures in fixed income and interest rate futures markets is reduced.

Transaction Tax: CMC vigorously opposes implementation of transaction taxes on futures and option contracts cleared on U.S. exchanges. Transaction taxes add costs, and if U.S. exchanges are not cost competitive market participants have alternative choices including a growing number of competitive foreign exchanges.

The proposed tax will also fragment liquidity, which is currently centralized on highly regulated markets, and will drive much of that liquidity, along with the price discovery function, onto other less regulated and less transparent offshore markets outside the purview of U.S. regulators.

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