



Commodity Markets Council
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April 17, 2009

The Honorable Tom Harkin
Chairman
Committee on Agriculture, Nutrition & Forestry
U.S. Senate
Washington, DC 20510

The Honorable Saxby Chambliss
Ranking Member
Committee on Agriculture, Nutrition & Forestry
U.S. Senate
Washington, DC 20510

The Honorable Christopher Dodd
Chairman
Committee on Banking, Housing & Urban Affairs
U.S. Senate
Washington, DC 20510

The Honorable Richard Shelby
Ranking Member
Committee on Banking, Housing & Urban Affairs
U.S. Senate
Washington, DC 20510

The Honorable Collin Peterson
Chairman
Committee on Agriculture
U.S. House of Representatives
Washington, DC 20515

The Honorable Frank Lucas
Ranking Member
Committee on Agriculture
U.S. House of Representatives
Washington, DC 20515

The Honorable Barney Frank
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairmen Harkin, Dodd, Peterson and Frank, Senators Chambliss and Shelby, and Representatives Lucas and Bachus:

As an organization representing the interests of futures and option exchanges and their participants, the Commodity Markets Council's exclusive objective is to ensure fair and efficient markets that work effectively for everyone – end users, market participants, exchanges, the general public, and regulators. The current market crisis shows there are gaps in the regulatory framework of U.S. financial markets. To provide appropriate oversight and transparency for our markets, CMC advocates for reform in four primary areas:

- 1) Enhancing market transparency;
- 2) Increasing CFTC resources;
- 3) Preserving deep and liquid commodity markets to ensure reliable price discovery; and
- 4) Establishing a device to provide a systemic view across all markets.

CMC is a trade association bringing together commodity exchanges with their industry counterparts. The activities of our members represent the complete spectrum of commercial users of all futures markets including agriculture, energy, metals, and financials. Specifically, our industry member firms are regular users of the Chicago Board of Trade, Chicago Mercantile Exchange, ICE Futures US, Kansas City Board of Trade, Minneapolis Grain Exchange, and New York Mercantile Exchange.

CMC is uniquely positioned to provide the consensus views of commercial end-users of derivatives exchanges and the exchange markets. Over the years, CMC and its predecessor organization the National Grain Trade Council, worked with the Commodity Futures Trading Commission (CFTC or the Commission) and lawmakers to improve transparency and accountability in these markets. The financial well-being of the American marketplace depends on the continued competitiveness of US futures exchanges and the smooth functioning of the risk management instruments traded on all regulated exchanges. As such, we look forward to working with lawmakers and industry on additional improvements.

Enhanced Market Transparency

Exchange-traded markets are transparent and regulated. The reform measures, such as requiring 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.

- **Expand Detailed Reporting & Disaggregation of Market Data:** CMC believes detailed reporting is necessary for greater market transparency and accountability. We were the industry's leading advocate to disaggregate the data relative to index funds 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.
- **Create Greater Transparency & Recordkeeping of OTC Transactions:** CMC believes increased reporting of certain OTC transactions could improve the CFTC's ability to see the full market and we will gladly work with the CFTC to identify these transactions.
- **Bolstering International Cooperation Through Increased Transparency:** CMC supports efforts to promote coordination and information sharing among international regulators. We believe this is an important step toward greater international regulatory cooperation in an industry that is global in nature.

Increasing CFTC Resources

CMC believes Congress should ensure that the CFTC has adequate resources and is fully staffed. Increasing the Commission's resources would represent a significant step in strengthening the CFTC oversight of regulated exchanges and linked markets.

- **An Ounce Of Prevention Is Worth A Pound Of Cure:** Through enhanced data collection, Commission staff will have a clearer picture of the market and its participants. Coupled with the Commission's existing authority this expanded view of the market will better position the agency to detect and deter market abuses.
- **Expanded Monitoring and Surveillance:** Increasing the CFTC's surveillance capabilities advances the public interest by preventing situations from causing harm to the markets, their users, and the public.

Preserving Deep and Liquid Commodity Markets and Reliable Price Discovery

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

- **Liquidity Facilitates Price Discovery:** One of the fundamental purposes of a futures market is price discovery and liquidity is essential to efficient price discovery. Futures markets grew immensely in the last decade because of the relevance of their products to the commercial hedging, financial hedging, and general international and domestic trading communities – including institutional investors. This increase in volume boosts liquidity, aids in price discovery, and enhances market efficiency.
- **Market Speculators Provide Needed Liquidity:** Speculators serve an important purpose in commodity markets. Their willingness to participate provides the liquidity necessary for efficient market operation.
- **Institutional Investors Are Legitimate Financial Hedgers:** CMC views the investment activity of institutional investors and index funds as legitimate “financial hedging.” Fund investment contributed to the overall success experienced by the commodity industry over the last decade, and CMC believes the CFTC and lawmakers should cautiously consider measures that discourage such participation in the markets.
- **Setting Speculative Position Limits:** We believe the exchanges in conjunction with the CFTC should have frontline authority to evaluate and set position and accountability limits.
 - Over the years, exchanges and the Commission developed an expertise in maintaining orderly markets, including setting appropriate reportable levels, position limits and accountability levels relative to specific commodities. This system provides the flexibility necessary to prevent excessive speculation while preserving transparent and liquid markets.
 - Requiring the CFTC to set hard limits for all physically-deliverable commodities would erode the benefits that come from a system responsive to real market conditions. It could also erode liquidity, damage the price discovery function of the markets, and undermine US competitiveness.
- **Defining Bona Fide Hedge:** CMC supports a review and evaluation of the definition of bona fide hedging by the CFTC.
 - Defining bona fide hedging in legislative language would exclude many of the current, but legitimate, market users who do not own the physical commodity but have financial risk and the need to hedge that risk on the regulated markets.
 - History shows that hedging opportunities and strategies can change drastically due to financial and market innovation in a short period of time. A statutory definition that is too restrictive would harm the markets and a definition that is too loose would be meaningless.
 - The CFTC, the public, and end users will be better positioned to review and evaluate the definition of bona fide hedging after the marketplace assesses the new information provided through increased transparency. This new information will give all interested parties a deeper and more complete understanding of the role various participants play in the market. It will also allow them to more accurately evaluate the impact on the market.

Create A Systemic View Of The Market

It is important to create 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. We also believe the CFTC, SEC, and banking regulators should continue to have front-line responsibility to take necessary and appropriate action.

We commend your work to improve the transparency and accountability in the financial system, and we appreciate the opportunity to work with you as find solutions that promote best practices.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael D. Walter". The signature is written in a cursive, flowing style.

MICHAEL D. WALTER
President

cc: House Agriculture Committee
House Financial Services Committee
House Energy and Commerce Committee
Senate Committee on Agriculture, Nutrition, and Forestry
Senate Committee on Banking, Housing, and Urban Affairs
Senate Committee on Energy and Natural Resources