

**Testimony Of
The Commodity Markets Council**

**On
Legislation Amending the Commodity Exchange Act**

**Before the
Committee on Agriculture
U.S. House of Representatives**

July 10, 2008

Chairman Peterson, Ranking Member Goodlatte, and Members of the Committee:

Good morning. My name is Christine Cochran and I am the vice-president of government relations for the Commodity Markets Council (CMC). I would like to thank you for hosting this series of hearings and for inviting CMC to participate.

CMC is a trade association that represents commodity futures exchanges and market participants. Our membership includes the complete spectrum of commercial uses of the agricultural and energy futures markets. I would like to emphasize that the businesses of all our industry members depend upon the efficient and competitive functioning of the risk management products traded on U.S. futures exchanges.

CMC strongly supports your efforts and those of the Commodity Futures Trading Commission (CFTC or Commission) to seek greater visibility into the commodity markets, especially in the energy markets. This visibility will lead to improved market transparency, which we believe, is the first step to maintaining responsible commodity markets. CMC has confidence in the CFTC's ability to gather and analyze market data.

For example, in 2006, CMC led the industry effort to increase transparency on index traders in the grain markets through the Commitment Of Traders (COT) Supplemental Report. Based on data collected by the CFTC, the Commission created a report that has already become one of the grain industry's most essential tools for analyzing markets. We believe that applying the same principle to other commodity markets will significantly benefit the market regulators, traditional market users, and the general public.

In the last decade, futures markets, especially in the enumerated agricultural commodities, have grown immensely because of the relevance of their products to the commercial hedging, financial hedging, and general international and domestic trading communities – including hedge funds, index funds, and institutional investors. This increase in volume boosts liquidity, aids in price discovery, and enhances market efficiency for all market participants.

CMC views the investment activity of institutional investors and index funds as legitimate “financial hedging,” but we recognize that it is passive in nature and not responsive to price levels. Some believe this activity is the reason for current price levels; however, based on the data available and cited by other before you too, CMC does not believe that this is the case.

As a result, we cannot support proposals that would ban any group of legitimate investors from participating in commodity markets. Instead, we believe that additional reporting could allow the CFTC to identify possible manipulative behavior. It could also help market participants better understand the role these investors may play in the market.

We also encourage you to weigh the possibility that banning or severely restricting this type of participant will not accomplish the intended purpose. The money will not disappear. Instead, it may move offshore and take with it valuable market liquidity, or it may move into the cash market and take with it valuable transparency.

CMC supports the CFTC's recently decision to take a "go-slow" approach in expanding exemptions for this new class of investors. This decision will allow the Commission and market users more time to thoroughly evaluate the impact this passively invested money may have on commodity markets.

Futures markets today reflect global economics and trends, not speculative buying power. Based on the information currently available to us, CMC believes speculative activity in futures markets may influence day-to-day prices, as it always has. On the other hand, it is the fundamental forces of supply and demand that creates and sustains the price levels we see in the markets.

Policy Recommendations To Consider

To address the concerns surrounding this new investor in commodity markets, CMC has two policy recommends:

1. We believe the CFTC should continue to monitor index fund participation and be prepared, if necessary, to examine the structure of the hedge exemptions granted to the funds.
2. We also recommends that the CFTC initiate a study of the trend toward "alpha" or "enhanced return" trading by index and hedge funds. Because this type of investment is price-responsive and not passively managed, CMC believes it is speculative in nature and should be reported as such on the CFTC COT Supplemental Report.

The Role of Swaps In Commodity Markets

CMC supports the efforts of the Commission to gather more information regarding swaps transactions and would support greater transparency of such transactions. However, we also believe that swaps contracts provide a legitimate and important commercial service.

A swaps contract is between two private parties, so it can provide a highly customized service that cannot be obtained in on-exchange contracts. For example, a commercial company may seek to secure a hedging position that extends over a five year period, but on-exchange futures contracts are not available that far out. In the over-the-counter market, the company can enter into a swaps agreement with another willing party for the desired terms. This arrangement meets the hedging needs of the commercial company seeking the position. It also creates risk exposure for the counterparty, which is often managed over time on-exchange.

In conclusion, CMC believes the commodity industry is in a volatile period due to supply and demand fundamentals experiencing new thresholds. Our system of open and competitive markets coupled with proper government oversight positions market participants to read, understand, and respond to market signals efficiently. Before any drastic changes are considered, we strongly urge you seek additional transparency and evaluation. More information will help regulators, traditional market participants, and the general public understand the impact this new class of investor is having on the market.

Mr. Chairman, we compliment you and Mr. Goodlatte for your efforts and we look forward to working with you and answering any questions that you may have. Thank you.