

COMMODITY MARKETS COUNCIL

SUITE 1020
1300 L STREET, N.W.
WASHINGTON, D.C. 20005

Tel (202) 842-0400 Fax (202) 789-7223 www.cmcmarkets.org

March 22, 2007

The Honorable Collin Peterson
House of Representatives
Washington, DC 20515

Dear Chairman Peterson:

I am writing on behalf of the members of the Commodity Markets Council (CMC, formerly the National Grain Trade Council) to urge you to oppose the tax on futures and option contracts traded on approved exchanges as proposed by President Bush in his fiscal year 2008 budget.

CMC is a trade association whose membership includes commodity futures exchanges and numerous industry counterparts in the agriculture and agriculture-related energy businesses, including domestic and multinational commodity merchandisers, processors, millers, refiners and bioenergy producers; US and internationally-based futures commission merchants; food and beverage manufacturers; major transportation companies; and financial institutions. Specifically, our member firms are regular users of the Chicago Board of Trade, Chicago Mercantile Exchange, Kansas City Board of Trade, Minneapolis Grain Exchange, New York Board of Trade and New York Mercantile Exchange. The financial well-being of all of our members depends on the continued competitiveness of US futures exchanges and the smooth functioning of the risk management instruments traded on such regulated exchanges.

Over the years, past Congresses have recognized the potentially devastating effects of a transaction tax and consistently rejected calls to impose these mandated costs on the users of the US futures markets. With intense competition from over-the-counter (OTC) derivatives markets and foreign exchanges, a transaction tax would severely hinder the ability of US futures markets to compete. Examples of some markets we believe to be especially vulnerable include:

- US exchanges have retained order flow for the vast majority of grain and oilseed contracts, despite the fact that most increases in production, trade, and consumption have occurred outside the United States.
- A US exchange remains the preeminent marketplace for risk management and price discovery in coffee, sugar and cocoa, despite the fact that these commodities are produced overseas and there are competitive futures markets in these products overseas.
- A US exchange is the primary price discovery market for global energy transactions. Imposing a transaction tax on these users would risk that status being lost to foreign competitors.

The proposed transaction tax would increase the cost of doing business in these exchange-traded contract markets and diminish or eliminate the international competitive edge that has helped the US futures and options industry grow and prosper. As a consequence, the transaction tax would damage the liquidity in U.S. futures markets, leading to further increased costs for market participants as bid-ask spreads widen.

If US exchanges are not cost competitive, market participants have alternative choices including foreign exchanges and OTC markets. If transactions migrate away from US-regulated exchanges, market liquidity, a critical component of a well-functioning futures market, will be jeopardized. One of the most important aspects of a futures market is price transparency, which is achieved by means of a centralized market with the depth and liquidity necessary for not only domestic users, but for the world to refer to as the pricing benchmark and use as an efficient hedging tool for the underlying commodity. The proposed transaction tax will 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 markets outside of the purview of US regulators. As a result of this fragmentation of market liquidity, the real costs of hedging price risks will increase for all users of derivatives markets.

Market-makers, in particular, assume a large portion of the price risk managed every day on US futures exchanges. These traders, who operate on the smallest profit margins of any regular user of exchange-based products, would be significantly impacted by the transaction tax. With the volume and frequency of their transactions, the proposed tax would make it incredibly challenging for many of them to continue trading on US regulated-exchanges. As a result, US exchanges could experience reduced market liquidity which would impact all market participants, overall exchange competitiveness and market efficiency.

The oversight provided by the Commodity Futures Trading Commission (CFTC) ensures public confidence and market integrity and protects market participants against manipulation, abusive trade practices, and fraud. The entire US economy and the US financial system benefit from these activities, not just market participants. The economic burden of financing the CFTC should not be borne solely by the market participants.

The proposed transaction tax would raise 75 percent of the CFTC's proposed \$116 million budget. While we believe it is important that the CFTC has adequate resources, we strongly urge you to reject the proposed transaction tax. With exchanges facing intense competition from foreign and OTC markets, this proposal places the long-term viability of US futures and options markets in danger and would be detrimental to one of the healthiest segments of the US financial system.

Sincerely,

/s/

DAVID C. LYONS

Chairman

cc: Reuben Jeffery, III, Chairman, Commodity Futures Trading Commission