

COMMODITY MARKETS OVERSIGHT COALITION

Americans for Financial Reform

Accountability, Fairness, Security

Business Leaders, Consumers and Financial Reform Advocates Join Forces to End Reckless Speculation and Commend CFTC Position Limits Rule

Commodity Markets Oversight Coalition, Americans for Financial Reform
Call for Reforms that Could Have Prevented Economic Crisis and Commodities Bubbles

January 15, 2010

Washington - Advocates for financial reform have formed a powerful partnership with business interests ranging from heating and motor fuels retailers to cotton marketers, and trucking companies to airlines, and this new alliance is calling on Congress and Federal Regulators to bring derivatives out of the shadows and into the daylight. "The biggest banks and financial services companies have tried to paint the battle over financial reform as a fight against business and free enterprise. This alliance with some of the most important business groups in the country shows how clearly this is not the case," said Heather Booth of Americans for Financial Reform. "Businesses that use derivatives for legitimate management of risk are hurt along with the rest of the economy when big banks are allowed to make reckless bets that must be paid off by the taxpayers."

Need for Congressional Action

"If Congress is serious about fixing the economy and creating jobs, it's time for them to get serious about controlling the casino that has become our commodities markets," said Sean Cota, owner of a small family-run heating fuel business in New England and a representative of the Commodity Markets Oversight Coalition. "Unchecked speculation leads to volatile markets and higher prices for oil, natural gas, wheat, and other commodities. That hurts businesses and consumers." Under current law, certain kinds of complex financial transactions take place with no transparency and without any Federal oversight. These include the credit-default swaps on mortgage -backed securities that fueled the housing bubble and brought down AIG. While big banks claim they support reform, they are working to ensure exemptions from any real accountability and from requirements that their trading be conducted in transparent environments.

Americans for Financial Reform and the Commodities Markets Oversight Coalition want to close these loopholes. "Any exemptions from exchange trading or clearing should be restricted to *bona fide* commercial hedging of physical commodities by end-users and customized or specialized contracts that cannot be traded or cleared. Hedge funds, private equity funds, exchange traded or index funds, and other speculators should not fall under any end-user exemption," according to their joint statement.

CFTC Position Limits Commended

The coalitions today also announced support for a proposed rulemaking at the U.S. Commodity Futures Trading Commission that would help prevent price distortions through speculative activity. "New CFTC Chairman Gary Gensler and his fellow Commissioners are to be commended for their recognition of the importance of preventing excessive speculation," said Jim Collura, a spokesman for the Commodity Markets Oversight Coalition. "But this new rule would not extend to foreign and over-the-counter trading, which is why Congressional action is so important," he said.

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JOINT STATEMENT OF SHARED PRINCIPLES FOR NEEDED REFORMS IN THE FUTURES/DERIVATIVES MARKETS

AS REVISED AND AGREED TO AT THE JOINT MEETING
OF MEMBERS OF THE
COMMODITY MARKETS OVERSIGHT COALITION
AND THE
AMERICANS FOR FINANCIAL REFORM

January 7th, 2010

Members of the Commodity Markets Oversight Coalition and Americans for Financial Reform, agreeing that inadequate federal oversight and excessive speculation contributed significantly to the financial crises and commodity bubbles of the previous decade, believe that meaningful reform is essential in order to return stability, confidence and transparency to the futures/derivatives markets and the broader economy. Therefore, our coalitions urge federal lawmakers and regulators to consider the following principles for needed reforms in the futures/derivatives markets:

1. Federal regulators should be given full authority to set and enforce position limits, including across-market aggregate position limits. Where regulators do not currently have sufficient authority to impose such limits, that authority should be granted by the Congress.
2. Federal regulators should be given additional authorities needed to ensure transparency and accountability and to prevent fraud, manipulation and excessive speculation on foreign boards of trade that allow U.S. access or that trade derivatives on commodities destined for delivery in the U.S.
3. U.S. regulators must work closely with foreign and international regulators to harmonize regulations to share market and trading data and to prevent regulatory arbitrage.
4. Standardized futures, swaps and derivatives, or such contracts that can be standardized and traded or cleared through exchanges or clearinghouses should be required to do so.
5. Any exemptions from exchange trading or clearing should be restricted to *bona fide* commercial hedging of physical commodities by end-users and customized or specialized contracts that cannot be traded or cleared. Hedge funds, private equity funds, exchange traded or index funds, and other speculators should not fall under any end-user exemption.
6. Federal regulators should be required to review and report to Congress, with recommendations, all exemptions that exist in statute, rule, regulation or administrative action or decision.
7. The CFTC should be granted the same statutory enforcement authority as the FTC, SEC and FERC.
8. Federal regulators must have the authority to ban abusive swaps.

Additionally, most of our members strongly encourage the following reforms:

9. State insurance regulators should be permitted to regulate credit default swaps.
10. If statutory standards are not met in executing a derivative transaction, that trade should be voided under federal or state law.
11. The percentage ownership that financial firms can take of an exchange or clearinghouse should be limited.