

COMMODITY MARKETS OVERSIGHT COALITION

October 8, 2009

The Honorable Collin Peterson
Chairman, Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

We appreciate your exceptional leadership in addressing the problems in our financial system that resulted in the worst economic meltdown of the US economy since the Great Crash of 1929 and for leading your committee in reporting out a bill - the Derivatives Markets Transparency and Accountability Act (H.R.977) - to address many problems that lead to the meltdown. Subsequently, the Administration has submitted to Congress a comprehensive plan for regulation of our financial markets and we understand that you are incorporating elements of the Administration plan in the bill reported from your committee.

The undersigned members of the Commodity Markets Oversight Coalition believe that commodity trading reform must be a central part of comprehensive financial market reform. Congress must act decisively to prevent another speculative bubble in commodities by assuring adequate transparency, accountability and oversight in the commodities markets, especially off-exchange and off-shore markets where U.S. regulation is virtually absent. For this reason, coalition members wholeheartedly endorsed H.R.977 earlier this year.

However, given the backlog of legislation in Congress and the multiple committees involved in financial services reform, we are concerned that a comprehensive package may not reach the President this year. Therefore, we urge you and your colleagues in the Agriculture Committee to move forward to address commodities trading reform, which is within your jurisdiction, and to afford the Commodity Futures Trading Commission (CFTC) all appropriate authorities to protect market participants and the public from fraud, manipulation and excessive speculation.

Specifically, it is important that new legislation provide the CFTC authority to:

1. **Regulate over-the-counter swaps and derivatives**, except securities under the jurisdiction of the SEC. Congress should require that all standardized contracts be traded on CFTC-regulated exchanges where possible, or at least on a CFTC-regulated clearing corporation.
2. **Impose aggregate speculative position limits** to prevent excessive speculation and return our futures markets to their traditional role as a tool for the hedging and risk management of *bona-fide* physical players. This system worked well for decades until so many exemptions were granted that financial speculators have come to dominate the markets, undermining commercial market participants and eroding public confidence. It is absolutely essential that the CFTC be able to **set and enforce aggregate position**

limits across all markets and for all months. We recommend that Advisory Groups, rather than public hearings, counsel the CFTC periodically on what percentage of open interest should be set as the per commodity limits.

3. **Prove a manipulation case under the same “reckless conduct” standard that the SEC, FERC, and FTC employ**, in contrast to its current difficult-to-prove “specific intent” standard. This would make clear that market manipulations resulting from “reckless conduct” will be illegal.
4. **Deny “no-action letters” to foreign boards of trade unless the board in question is subject to a foreign regulator with comparable oversight and regulation** as is required of boards of trade within the United States.
5. **Ban “High Frequency” trading in the Commodity markets.** This trading practice employs tactics such as close-proximity electronic trading, super-computers and complex software to give a select few market participants an anti-competitive advantage. The SEC is considering a ban on such trading tactics but currently, the CFTC lacks explicit authority to do so. If the SEC bans this activity and the CFTC lacks the authority to follow suit, we fear “High Frequency” trading could become more prevalent in the commodities markets.

We pledge our strong support for the passage of assertive action on the commodity trading reforms as outlined in this letter to bring stability and confidence back to these markets. Further, we understand that the House Committee on Financial Services is working on derivatives reform legislation this month. We look forward to sharing our input with you, Chairman Frank and the staff of both committees on ways in which legislation might be improved to further protect the integrity of the commodities markets.

Again, thank you for your leadership and we look forward to working with you as the legislative process moves forward.

Sincerely,

Agricultural Retailers Association
Air Transport Association
American Cotton Shippers Association
American Cotton Exporters Association
Atlantic Cotton Association
Arkansas Oil Marketers Association
American Feed Industry Association
Colorado/Wyoming Petroleum Marketers Association
Food & Water Watch
Florida Petroleum Marketers & Convenience Store Association
Friends of the Earth
Fuel Merchants Association of New Jersey
(More)

Gasoline & Automotive Service Dealers of America
Grassroots International
Institute for Agriculture and Trade Policy
Louisiana Oil Marketers & Convenience Stores Association
Maryknoll Office for Global Concerns
Massachusetts Oilheat Council
Mid-Atlantic Petroleum Distributors Association
National Association of Oil Heat Services Managers
National Association of Truck Stop Operators
National Farmers Union
National Grange
New England Fuel Institute
New Jersey Citizen Action Oil Group
New York Oil Heating Association
North Dakota Petroleum Marketers Association
North Dakota Propane Gas Association
Oil Heat Council of New Hampshire
Oil Heat Institute of Rhode Island
Petroleum Marketers Association of America
Petroleum Marketers & Convenience Store of Iowa
Propane Gas Association of New England
Public Citizen
Ranchers-Cattlemen Action Legal Fund USA
South Dakota Petroleum and Propane Marketers Association
Southern Cotton Association
Texas Cotton Association
United Egg Producers
Vermont Fuel Dealers Association
Western Cotton Shippers Association
Western Peanut Growers Association
World Cotton Exporters Association

Cc: The Hon. Frank Lucas, Ranking Member, House Committee on Agriculture
The Hon. Blanche Lincoln, Chairman and Hon. Saxby Chambliss, Ranking Member,
Senate Committee on Agriculture, Nutrition & Forestry
The Hon. Gary Gensler, Chairman, U.S. Commodity Futures Trading Commission
The Hon. Michael Dunn, Commissioner, U.S. Commodity Futures Trading Commission
The Hon. Jill Sommers, Commissioner, U.S. Commodity Futures Trading Commission
The Hon. Bart Chilton, Commissioner, U.S. Commodity Futures Trading Commission