

COMMODITY MARKETS OVERSIGHT COALITION

An Alliance of Commodity Derivatives End-Users and Consumers

July 21, 2011

The Honorable John Boehner
Speaker of the House
U.S. House of Representatives
H-232 The Capitol
Washington, DC 20515

The Honorable Nancy Pelosi
Majority Leader
U.S. House of Representatives
H-204 The Capitol
Washington, DC 20515

The Honorable Harry Reid
Majority Leader
United States Senate
522 Hart SOB
Washington, DC 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
317 Russell SOB
Washington, DC 20510

THE IMPORTANCE OF DEFENDING MAIN STREET ON THE ONE YEAR ANNIVERSARY OF THE DODD-FRANK ACT

Dear Speaker Boehner and Leaders Pelosi, Reid and McConnell:

The undersigned members of the Commodity Markets Oversight Coalition, representing rural and Main Street American businesses and consumers, write to urge your commitment to fully fund and defend reforms of the commodity derivatives markets included in Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub.L.111-203).

The CMOC is an independent, non-partisan and non-profit alliance of groups that represent commodity-dependent industries, businesses and end-users, including American consumers, that rely on functional, transparent and competitive commodity derivatives markets as a hedging and price discovery tool. Our coalition advocates in favor of government policies that promote stability and confidence in the commodities markets, that seek to prevent fraud, manipulation and excessive speculation, and that preserve the interests of *bona fide* hedgers and consumers.

For this reason, we supported reforms included in Title VII of the Dodd-Frank Act designed to bring greater oversight, transparency and accountability to the derivatives markets, including commodity futures, options and swaps, while preserving the market as a tool for physical hedgers of energy and agricultural products, livestock and metals. Our support for this legislation was borne out of two decades of deregulation in these markets, which resulted in an era of excessive price volatility and an influx of unprecedented speculative capital into the commodities markets.

Make no mistake, financial speculation in commodities is necessary. Speculation provides derivatives markets, including the futures options and swaps markets, with the liquidity needed to facilitate price discovery and appropriate risk mitigation for hedgers. However, these markets were never established to serve speculators, and while ten years ago hedgers outnumbered speculators three-to-one, today those tables are more than completely reversed. Today, speculators dominate these markets and this month a CFTC report showed an average of 90 percent of daily futures trading volumes for the most commonly traded commodities are held by financial speculators.

In the twenty years prior to the passage of the Dodd-Frank Act, the financial services industry was able to secure regulatory exemptions that exacerbated market opacity, allowed financial speculators such as hedge funds and index funds to access exemptions reserved exclusively for physical hedgers and neutered prohibitions on excessive speculation. These markets became erratic, volatile and increasingly disconnected from supply and demand, as shown by scores of academic and government studies and analyses by economists and market experts (see the attached list).

Elements of Title VII, including new clearing requirements and mandatory position limits for speculative traders, were included by Congress to address these problems, return some measure of stability and confidence to these markets, and return them to their original purpose as a tool for physical hedgers. The CFTC is currently engaged in rulemakings that will implement these reforms. However, one-year after their enactment, these vital regulatory initiatives are in serious jeopardy.

First, **the CFTC requires appropriate funding increases** for comprehensive implementation and enforcement of Title VII reforms, to respond to emerging market trends and trading practices, and to insure orderly and functional commodities markets. We were disappointed that the House of Representatives approved a funding level that is 44 percent below the amount requested by the Commission as necessary in order to fulfill its mission.

We hope the Senate will fully fund the CFTC at \$308 million as requested, and that the House will ultimately side with Main Street over Wall Street. As all parties know, without adequate funding, derivatives reform may not be fully enacted and cannot be vigorously enforced. Inadequate funding will further jeopardize security, stability and confidence in the U.S. commodity markets.

Second, **we urge the Congress to resist calls to water-down, delay or repeal Title VII reforms.** This would not benefit Main Street businesses and consumers. Rather, it would benefit financial entities and speculative investors on Wall Street and LaSalle Street who are desperate for opportunities to derail needed reforms, preserve the status quo and continue their speculative profits.

In closing, we would like to commend CFTC Chairman Gary Gensler, his fellow Commissioners and their staff for their hard work and dedication to what has been one of the most open and transparent rulemakings process in memory. We urge Congress to make the same commitment to these reforms and their implementation and enforcement.

Thank you for your consideration.

Sincerely,

Air Transport Association
American Feed Industry Association
American Trucking Associations
California Black Farmers and Agriculturalists Association
Colorado-Wyoming Petroleum Marketers Association
Consumer Federation of America
Consumer Watchdog
Florida Petroleum Marketers Association
Food & Water Watch
Fuel Merchants Association of New Jersey
Gasoline & Automotive Service Dealers of America
Illinois Petroleum Marketers Association
Illinois Association of Convenience Stores

Independent Connecticut Petroleum Association
Institute for Agriculture and Trade Policy
Louisiana Oil Marketers & Convenience Store Association
Maine Energy Marketers Association
Massachusetts Oilheat Council
Maryknoll Office for Global Concerns
Montana Petroleum Marketers & Convenience Store Association
NAFA Fleet Management Association
National Association of Oil & Energy Service Professionals
National Association of Truckstop Operators
National Association of Shell Marketers
National Council of Chain Restaurants
National Farmers Union
New England Fuel Institute
New Jersey Citizen Action Oil Group
New Mexico Petroleum Marketers Association
New York Oil Heating Association
North Dakota Petroleum Marketers Association
North Dakota Propane Gas Association
North Dakota Retail Association
Oil Heat Council of New Hampshire
Oil Heat Institute of Long Island
Oil Heat Institute of Rhode Island
Organization for Competitive Markets
Petroleum Marketers & Convenience Store Association Kansas
Petroleum Marketers & Convenience Stores of Iowa
Petroleum Marketers Association of America
Public Citizen
Ranchers-Cattlemen's Action Legal Fund (R-CALF) USA
Society of Independent Gasoline Marketers of America
Utah Petroleum Marketers and Retailers Association
Vermont Fuel Dealers Association
West Virginia Oil Marketers and Grocers Association

cc: The Honorable Gary Gensler, Chairman, Commodity Futures Trading Commission
The Honorable Michael Dunn, Commissioner, Commodity Futures Trading Commission
The Honorable Jill Sommers, Commissioner, Commodity Futures Trading Commission
The Honorable Bart Chilton, Commissioner, Commodity Futures Trading Commission
The Honorable Scott O'Malia, Commissioner, Commodity Futures Trading Commission
Senator Richard Durbin, Assistant Majority Leader, United States Senate
Senator John Kyl, Assistant Minority Leader, United States Senate
Senator Daniel K. Inouye, Chairman, Senate Committee on Appropriations
Senator Thad Cochran, Vice Chairman, Senate Committee on Appropriations
Senator Debbie Stabenow, Chairman, Senate Committee on Agriculture, Nutrition & Forestry
Senator Pat Roberts, Ranking Member, Senate Committee on Agriculture, Nutrition & Forestry
Representative Eric Cantor, Majority Leader, United States House of Representatives
Representative Kevin McCarthy, Majority Whip, United States House of Representatives
Representative Steny Hoyer, Democratic Whip, United States House of Representatives
Representative James Clyburn, Asst. Minority Leader, United States House of Representatives
Representative Jack Kingston, Chairman, House Committee on Appropriations
Representative Norman Dicks, Ranking Member, House Committee on Appropriations
Representative Frank D. Lucas, Chairman, House Committee on Agriculture
Representative Collin Peterson, Ranking Member, House Committee on Agriculture