

# COMMODITY MARKETS OVERSIGHT COALITION

An Alliance of Derivatives End-Users & Reform Advocates

May 4, 2010

The Honorable Harry Reid  
Majority Leader, U.S. Senate  
522 Hart Senate Office Building  
Washington, DC 20510

The Honorable Mitch McConnell  
Minority Leader, U.S. Senate  
361A Russell Senate Office Building  
Washington, DC 20510

Dear Majority and Minority Leaders:

The Commodity Markets Oversight Coalition is an alliance of consumer advocates and commodity producers, marketers and end-users that rely on derivatives to hedge commodity price fluctuations and to insulate their businesses and consumers from risk. For three years we have called for legislative reform of derivatives markets to strengthen oversight, transparency and stability, address regulatory inadequacies in the existing derivatives markets, and limit the role of financial speculation in regulated, over-the-counter (OTC) and off-shore markets.

In light of these goals, our coalition formally endorsed the “Wall Street Transparency and Accountability Act,” which was reported out of the Senate Agriculture Committee, in a letter dated April 23rd and requested that this legislation be included in the broader financial services package, S.3217. We are pleased that Senators Dodd and Lincoln were able to come to an agreement and that the important derivative reforms will be included in the broader financial reform package to be considered on the Senate floor.

We are especially supportive of the narrow exemption from mandatory clearing requirements for legitimate commercial end-users that use derivatives to manage risks associated with their real-world businesses. Recently, financial entities, including hedge funds, investment banks and insurance companies, have begun to use commodity derivative contracts to hedge the risk of a declining dollar or rising interest rates. While these financial entities have a legitimate interest in hedging their risk, they are not producers, distributors or end-users of physical commodities. Moreover, in recent years their participation in the over-the-counter commodities markets now dwarfs that of *bona-fide* physical hedgers.

These financial entities’ hedging activities have dramatically increased volatility and uncertainty in commodity prices and have resulted in dramatic price swings that are injurious to traditional commodity end-users. For these reasons, financial entities should not be exempted from the mandatory clearing requirements and the end-user exemption should remain narrowly tailored to those businesses that produce, market or consume the underlying commodity.

We have recently learned that you and your colleagues have received communications from the so-called “Coalition for Derivatives End-Users” and other groups claiming to speak for “derivatives end-users.” Please know that this group **does not** speak for our coalition or its members. This so-called coalition of “end-users” includes many entities that neither produce, market nor consume the physical commodity that they seek to invest in –they are not traditional end-users. Given the nature of their suggested changes to the legislation it is questionable whether in fact they have the issues of commercial end-users at heart.

**Our coalition opposes any expansion of exemptions in the derivatives title in such a way as to create new loopholes for financial market interests.** If the Senate accepts the recommendations of the “Coalition for Derivatives End-Users” and others claiming to speak for legitimate end-users, it will create new loopholes for financial players, thereby enabling and exacerbating the very speculation and unchecked risk that the bill seeks to eliminate.

**Specifically, our coalition:**

- **Opposes expanding the end-user clearing exemption to financial entities** or anyone other than legitimate commercial end-users utilizing derivatives markets to hedge commercial risk.
- **Opposes eliminating the category of “Major Swap Participant”** and replacing it with a system of exemptions that would allow hedge funds and other financial players to exempt large portions of their derivatives portfolios.
- **Opposes lowering capital/margin requirements for financial players**, including swap dealers, major swap participants and other financial entities.
- **Opposes eliminating “too-big-to-fail” prohibitions with respect to federal assistance** for swap dealers and other financial participants.
- **Opposes new powers allowing the Treasury Secretary to exempt entire categories of swaps** from regulation, which would undermine the authority of independent regulators like the Commodity Futures Trading Commission and the Securities and Exchange Commission.

None of the above measures will benefit commercial end-users. We urge you to enact responsible legislation that will protect legitimate commercial hedgers and consumers from excessive speculation and systemic risk, not create new loopholes for financial interests.

Thank you for your consideration and we are available to discuss this matter with you further.

Sincerely,

American Cotton Shippers Association  
Air Transport Association  
American Trucking Associations  
Arkansas Oil Marketers Association  
Atlantic Cotton Association  
California Black Farmers & Agriculturalists Association  
California Independent Oil Marketers Association  
Colorado/Wyoming Petroleum Marketers Association  
Consumer Federation of America  
Florida Petroleum Marketers Association  
Food & Water Watch  
Fuel Merchants Association of New Jersey  
Gasoline & Automotive Service Dealers of America  
Grassroots International  
Independent Connecticut Petroleum Association  
Institute for Agriculture and Trade Policy  
Louisiana Oil Marketers & Convenience Store Association  
Massachusetts Oilheat Council  
Maine Energy Marketers Association  
Maryknoll Office for Global Concerns  
Masters Capital Management  
Michigan Petroleum Association  
Michigan Association of Convenience Stores  
Missionary Oblates  
National Association of Oilheating Service Managers  
National Association of Truckstop Operators  
(Continued)

National Latino Farmers & Ranchers Trade Association  
Nebraska Petroleum Marketers & Convenience Store Association  
New England Fuel Institute  
New Mexico Petroleum Marketers Association  
New Rules for Global Finance  
New York Oil Heating Association  
North Dakota Petroleum Marketers Association  
North Dakota Propane Gas Association  
North Dakota Retail Association  
Oil Heat Institute of Long Island  
Oil Heat Council of New Hampshire  
Oil Heat Institute of Rhode Island  
The Organization for Competitive Markets  
Petroleum Marketers Association of America  
Petroleum Marketers & Convenience Store Association Kansas  
Petroleum Marketers & Convenience Stores of Iowa  
Propane Gas Association of New England  
Public Citizen  
R-CALF USA  
South Dakota Petroleum & Propane Marketers Association  
Souther Cotton Association  
Texas Cotton Association  
Utah Petroleum Marketers & Retailers Association  
Vermont Fuel Dealers Association  
Western Cotton Shippers Association  
Western Peanut Growers  
West Virginia Oil Marketers and Grocers Association

cc: All Members of the United States Senate