



Americans for Financial Reform
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November 18, 2015

President Barack Obama
The White House
1600 Pennsylvania Avenue NW
Washington, DC 20500

The Honorable Jacob J. Lew
Secretary Department of the Treasury
1500 Pennsylvania Avenue NW
Washington DC 20220

Dear President Obama and Secretary Lew,

We, the undersigned organizations, are writing regarding the current open seats for Commissioners at the Commodity Futures Trading Commission (CFTC). It is vital that you nominate individuals who have both the publicly demonstrated commitment to financial reform and the financial markets expertise that is necessary to complete the implementation of crucial Dodd-Frank mandated reforms of our financial and commodity derivatives markets.

The CFTC is charged with a mission that is critical to our financial system and our economy. The agency supervises markets ranging from commodity derivatives markets that help determine the price of family essentials like gasoline, to the massive financial derivatives markets that played a crucial role in the devastating financial collapse of 2008.

The Dodd-Frank Act granted the CFTC new regulatory jurisdiction over more than 90% of the U.S. over-the-counter derivatives market, which represents most of the \$550 trillion global derivatives market. As this over-the-counter market was not previously subject to market regulation, fully implementing this mandate is a once-in-a-generation challenge. The Dodd-Frank Act also granted the CFTC important new powers to prevent market manipulation and excessive speculation, including a mandate to limit speculative positions in commodity markets. The expanded responsibilities under the Dodd-Frank Act have had a transformational impact on the CFTC's responsibilities, placing it in a far more central role as a key regulator of a broad range of derivatives asset classes and financial markets, not just commodity based derivatives.

With an annual budget of just \$250 million to oversee hundreds of trillions of dollars in market transactions, the CFTC is by far the smallest of the major financial regulatory agencies. This makes the tasks before it still more challenging, and the role of strong and effective leadership even more crucial. While the CFTC has completed many Dodd-Frank rules, there are still a number of significant rules that have not been finalized. These include rules on capital

requirements for derivatives dealers, as well as rules limiting excessive speculation in the commodity markets.

In many areas where rules are nominally completed, such as transparent trading of financial derivatives and international coverage of derivatives markets, major challenges remain in implementation. Indeed, due to continued exemptions and delays in full enforcement of rules, a large proportion of derivatives transacted by Wall Street banks – possibly over half of all such derivatives – are not subject to U.S. rules because they are channeled through nominally foreign subsidiaries. Until rules are fully implemented and enforced, the task of market oversight called for in the Dodd-Frank Act will not be completed. The challenge of full and effective implementation of new rules is if anything even greater than that involved in initial rule writing.

The agency needs every Commissioner slot filled with individuals who have the right kind of expertise and leadership necessary to complete the job of fully implementing the agency's new responsibilities. Properly staffing these positions in the current environment requires a change from previous thinking regarding the agency's mission and role. While the name of the agency refers to 'Commodity Futures', post Dodd-Frank the substantial majority of CFTC-regulated transactions now involve purely financial derivatives. In some commodity areas, such as energy, derivatives transactions in oil and natural gas also play a more central role in the financial system than they ever have before, due to the growth of these markets, their predominance in commodity index fund trading, and the central role of energy prices as an economic benchmark. It is these newly central areas of Wall Street financial regulation, not traditional agricultural commodity areas, which have also created the most intense controversy and political pressures in recent years. These pressures are clearly related to the immense financial stakes in current CFTC decisions regarding the regulation of financial derivatives, decisions that will shape the future of the derivatives markets for many years to come.

In light of the financial derivatives issues that dominate the CFTC's current work, we believe that any Commissioner nomination must satisfy two requirements. First, a prospective nominee should have a clear and public track record of advocating for reforms of derivatives market oversight that address the weaknesses revealed in the wake of the 2008 financial crisis, such as the reforms called for in the Dodd-Frank Act. Without such a record, the public will not have the necessary assurance that a nominee can resist the intense political and lobbying pressure being brought upon the agency to inappropriately weaken Dodd-Frank reforms during the implementation process. Second, a prospective nominee should have a deep expertise in financial derivatives markets and the role these markets play in the broader financial system. The highly technical issues that are central to the CFTC's current regulatory and implementation workload demand this kind of expertise at the Commissioner level.

We urge you to nominate individuals for open CFTC Commissioner positions who meet these qualifications. The future safety of global financial and commodity markets, and the legacy of

the Dodd-Frank Act as a success or a failure, could depend on decisions made by CFTC commissioners over the next several years.

Sincerely,

AFL-CIO

The American Federation of State, County and Municipal Employees (AFSCME)

American for Financial Reform

Consumer Federation of America

Institute for Agriculture and Trade Policy

Public Citizen

U.S. PIRG