May 15, 2012

The Honorable Barney Frank
2252 Rayburn House Office Building
Washington, DC 20515

The Honorable Collin C. Peterson
2211 Rayburn House Office Building
Washington, DC 20515

Dear Representatives Frank and Peterson,

Like so many Americans and others around the globe, the members of our organizations were deeply affected by the financial crisis of 2008. The collapse of the financial system cost the U.S. trillions of dollars and millions of jobs. Globally, the costs in terms of lost output have been estimated at $60 trillion.

There were many causes of the financial crisis. But surely one of the most central was the massive unregulated market in over the counter derivatives. The global derivatives market before the crisis was almost $600 trillion in notional value, about half of which was in U.S. markets. The global derivatives market has only grown since then, to over $700 trillion today – and until new rules are completed, this market remains unregulated. As shown by continuing derivatives markets scandals such as the recent JP Morgan trading losses, this lack of regulation continues to create risks for the U.S. financial system.

Title VII of the Dodd-Frank Act established for the first time an oversight mechanism for these derivatives markets. This oversight is based on common sense principles – swaps and derivatives bets must be backed up with real money, traded through clearinghouses such as those used successfully in commodities futures markets for 150 years, transacted on fair and open exchanges with price competition, and reported in a transparent manner to regulators and the public. This new regime will bring benefits to the public in improved financial stability and to derivatives customers through price reductions created by competition.

In light of the importance of these new derivatives rules, it has been extremely troubling to see bills that create significant, substantive changes in the derivatives section of the Dodd-Frank Act proceeding to the floor under a suspension of the ordinary rules. The suspension procedure is designed for relatively insignificant and uncontroversial bills which create minimal costs. Both political parties have policies that restrict suspension bills to those where there is no more than $100 million at stake. The suspension process is meant to be a bipartisan procedure to speed the passage of minor legislation where in-depth discussion and debate is unnecessary.

We are deeply concerned about derivatives bill that are neither minor nor technical coming to the floor under suspension procedures. For example, a bill exempting banks with up to $200 billion in notional interest rate swaps from some of the central requirements of the Dodd-

Frank Act (HR 3336) could create major costs for the U.S. economy. Legislation exempting swaps between the thousands of affiliates of our largest Wall Street banks from almost all regulatory requirements (HR 2779) would make a significant change in the important reforms enacted in Dodd Frank.

There is even more significant legislation related to the derivatives title of the Dodd Frank Act that is currently being considered in the House. For example, there is legislation granting sweeping exemptions from Dodd-Frank regulation for thousands of foreign affiliates of U.S. companies. This could effectively end Dodd-Frank derivatives regulation for much of Wall Street swaps activity. There is legislation effectively repealing the 'swaps push-out provision' in Section 716 of the Dodd Frank Act. Other legislation would prevent regulators from implementing core transparency and competitiveness provisions for the new derivatives exchanges (swaps execution facilities) set up under new derivatives rules. Again, these bills have major economic implications and should certainly not be rushed through without debate.

Bringing these or other significant derivatives bills to the floor under a suspension procedure creates the impression that there is a bipartisan effort in the House to assist Wall Street lobbyists in dismantling Dodd-Frank derivatives protections. We hope and trust that this is not the case. After the disastrous events of 2008, and as problems in the derivatives markets continue today, Congress should instead be encouraging regulators to complete the work mandated by financial reform legislation and speedily bring these markets under proper oversight.

Sincerely,

AFL-CIO

Americans for Financial Reform

Commodities Markets Oversight Coalition (CMOC)