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**BEFORE THE**
**U.S. HOUSE COMMITTEE ON AGRICULTURE**
**GENERAL FARM COMMODITIES AND RISK MANAGEMENT SUBCOMMITTEE**
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Good morning Chairman Conaway, Ranking Member Boswell and members of the Subcommittee, and thank you for inviting me to today's hearing on global derivatives regulation. I am pleased to testify alongside my colleague, Commissioner Jill Sommers, who does an outstanding job as the Chair of our Global Markets Advisory Committee (GMAC).

I believe the financial regulatory reforms that we are currently working upon in the U.S., and specifically at our agency, will make the U.S. futures industry safer, sounder, more efficient and effective, and more competitive than ever before. I also believe that the European Union has the same view with regard to the need for financial regulatory reform, and the benefits thereof. The U.S. and the European Union are the predominate swaps markets, and reform in both of these markets will provide the basis for other jurisdictions to undertake similar measures. I am hopeful that our brethren Asian regulators also have such a view.

I would note with great concern consideration by the House appropriations subcommittee of language that would essentially cut our budget. To my mind, this is penny-wise and pound-foolish. We went to the brink of economic disaster, Congress gave us the directives in Dodd/Frank to ensure that doesn't happen again, and now there are those who would keep us from having the budget to do the job.

This morning I will provide comments on the status of the Commodity Futures Trading Commission's (CFTC's) efforts in the area of international harmonization on derivatives reform and implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. I will be meeting with regulators in several European Union countries in June, and so my remarks are made in light of those upcoming discussions.

We have been coordinating—in an unprecedented manner—with our European and Asian counterparts on all major issues relating to the implementation of over-the-counter (OTC) oversight regulation. Of course, there are differences on some provisions of our respective laws, but the level of overall harmonization is substantial. In addition, it's fortuitous that many jurisdictions are developing regulations contemporaneously. This allows us to craft corresponding, standardized, conforming, or complementary rules as appropriate.

In addition to frequent, ongoing, and productive staff phone contact with regulators around the world, we also maintain—as much as possible with our budget constraints—face-to-face contact with foreign regulators. Our Chairman made two visits to Brussels over the past year to speak to high-level European politicians about the legislation, and our director of international affairs also meets regularly with the European Commission's financial attaché here in Washington to discuss salient issues. We also have video conference with European Commission staff and the other U.S. financial regulators on OTC regulatory reform. In addition, we participate in numerous International Organization of Securities Commissions (IOSCO) and Financial Stability Board (FSB) committees, which are instrumental in providing fora to discuss and develop policy and guidance.

Generally, in our international discussions, we are guided by the 2009 Pittsburgh G-20 Communiqué, which set forth four key directives which all G-20 countries must implement by the end of 2012. Those are, specifically:

- Clearing of all standardized OTC derivatives;
- Trading on an exchange or electronic trading platform, "where appropriate";
- Reporting of all OTC derivatives to a regulator or trade repository; and
- Higher Capital Requirements on uncleared derivatives.

These four elements provide a useful benchmark that entities such as IOSCO and FSB can use in their assessment of progress on OTC reform. Most importantly, these guidelines are consonant with the Congressional directives provided in the Dodd-Frank Act.

Dodd-Frank is our primary compass in this area, and Section 752(a) of the Act expressly provides for international coordination on regulatory matters. In that vein, we are adjured specifically to "consult and coordinate with foreign regulatory authorities on the establishment of consistent international standards" as to OTC transaction regulation.

As we move forward in this area, one of the thorniest issues we have to deal with is the topic of "extraterritoriality." Section 722(d) of Dodd-Frank provides that the Act won't apply to activities outside the U.S. unless they have a "direct and significant connection with activities in, or effect on, commerce" in the U.S., or contravene Commission regulations needed to prevent evasion of the futures laws. This is an issue that has been the subject of much legal debate, but I think that we need to cut through that morass to provide some certainty to market participants who are concerned about what laws are going to apply to them. In that respect, while we don't

yet have all the answers, we are working toward a consistent method to discuss and develop a satisfactory resolution of the issue, and provide legal certainty for markets and participants. Just as we have with all of our other Dodd-Frank initiatives, we welcome the input of market users in addition to that of our fellow regulators, here and abroad.

As to the timing of initiatives, while the European legislation that is set forth in the European Markets Infrastructure Report (EMIR) and in the European securities laws (MiFID) are likely to be adopted later this year (and thereby putting Europe somewhat behind the U.S. timeframe), in practice, this may have little substantive impact, as Chairman Gensler has indicated that we will be pursuing a phased implementation in the U.S. In each jurisdiction, the key goal is to meet the end-2012 deadline set by the G-20.

In closing I'd like to briefly mention two issues that are particularly important to me: speculative position limits and high frequency traders (HFTs). I appreciated the opportunity to testify before this subcommittee last December on speculative position limits. Dodd-Frank provides that, in establishing position limits for exempt and agricultural commodity futures and options traded on or subject to the rules of a designated contract market, the Commission "shall strive to ensure" that trading on foreign boards of trade (FBOTs) in the same commodity will be subject to comparable limits and that any Commission limits will not cause price discovery in the commodity to shift to trading on FBOTs. We are considering how we can engage foreign regulators to ensure parity in regulatory controls over significant position holders. In the E.C.'s MiFID review, it is considering giving all national regulators the power to impose position limits. I have said numerous times that we in the U.S. can and should do better in this area, that

there are things we can do now (such as spot month limits in swaps and on the regulated exchanges, based on a percentage of deliverable supply). I hope that we, both in the U.S. and internationally, can move forward expeditiously in these efforts to protect markets and consumers from excessive speculation.

As to HFTs, while I recognize the value that these participants can bring to the market in terms of adding liquidity and tightening spreads, I have concerns about some possible negative effects that this relatively new type of activity may have on traditional market uses. I have heard from commercial entities, and indeed from some HFTs themselves, that this is an area that deserves some heightened scrutiny from regulators, to ensure that all market participants get a fair shake and a level playing field. I look forward to working with my colleagues, here and abroad, to ensure that these types of market innovations do not result in anticompetitive effects for any markets or participants.

Thank you again for the opportunity to testify. I'd be pleased to answer any questions.