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Charles Carey was a founder and partner of HC Technologies, formerly Henning and Carey, a commodity trading firm and clearing member of CME Group. He has served on the CME Group board of directors since 2007 – as vice chairman for three of those years – and he is chairman of the CME Group Foundation. From 2003 to 2007, Carey was chairman of the board of the Chicago Board of Trade, where he had been a member since 1978 trading grains and other commodities.

Carey began his career in 1976 trading small-lot contracts as a member the MidAmerica Commodity Exchange. In the early 1980s, he would sometimes trade in the hog pit on the floor of the Chicago Mercantile Exchange, which is where he met Terrence Duffy, now chairman and chief executive officer of CME Group, establishing a friendship that would play an important role in the transformation of the global futures industry.

As chairman of CBOT, Carey pioneered the first common clearing agreement with Duffy in 2003 with CME clearing CBOT trades a year later. In 2005, Carey led the restructuring of CBOT from a member-run exchange into a for-profit, NYSE-publicly listed company. It was these developments that paved the way for the landmark merger of CME and CBOT in July 2007, creating a single entity offering global derivatives trading across all major asset classes.

Throughout his near-50-year career, Carey, a third-generation member of CBOT, has been instrumental in promoting the expansion of the futures markets and the City of Chicago. He has served as chairman of the Commodity Markets Council since 2010. A former college football player and avid sports fan, he is also president of the Chicagoland Sports Hall of Fame as well as an active supporter of Misericordia Heart of Mercy.

Truth in Testimony Disclosure Form

In accordance with Rule XI, clause 2(g)(5)* of the *Rules of the House of Representatives*, witnesses are asked to disclose the following information. Please complete this form electronically by filling in the provided blanks.

Committee: Agriculture

Subcommittee:

Hearing Date: 03/25/2025

Hearing Title:

"The CFTC at 50: Examining the Past and Future of Commodity Markets"

Witness Name: Charles P. Carey

Position/Title: Chairman, Commodity Markets Council

Witness Type: ○ Governmental ◉ Non-governmental

Are you representing yourself or an organization? ○ Self ◉ Organization

If you are representing an organization, please list what entity or entities you are representing:

Commodity Markets Council

<u>FOR WITNESSES APPEARING IN A NON-GOVERNMENTAL CAPACITY</u>

Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.

Are you a fiduciary—including, but not limited to, a director, officer, advisor, or resident agent—of any organization or entity that has an interest in the subject matter of the hearing? If so, please list the name of the organization(s) or entities.

CME Group Board of Directors
Commodity Markets Council, Chairman

Please list any federal grants or contracts (including subgrants or subcontracts) related to the hearing's subject matter that you or the organization(s) you represent have received in the past thirty-six months from the date of the hearing. Include the source and amount of each grant or contract.

na

Please list any contracts, grants, or payments originating with a foreign government and related to the hearing's subject that you or the organization(s) you represent have received in the past thirty-six months from the date of the hearing. Include the amount and country of origin of each contract or payment.

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Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.

☑ I have attached a written statement of proposed testimony.

☑ I have attached my curriculum vitae or biography.

* Rule XI, clause 2(g)(5), of the U.S. House of Representatives provides:

(5)(A) Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof.

(B) In the case of a witness appearing in a non-governmental capacity, a written statement of proposed testimony shall include— (i) a curriculum vitae; (ii) a disclosure of any Federal grants or contracts, or contracts, grants, or payments originating with a foreign government, received during the past 36 months by the witness or by an entity represented by the witness and related to the subject matter of the hearing; and (iii) a disclosure of whether the witness is a fiduciary (including, but not limited to, a director, officer, advisor, or resident agent) of any organization or entity that has an interest in the subject matter of the hearing.

(C) The disclosure referred to in subdivision (B)(ii) shall include— (i) the amount and source of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) related to the subject matter of the hearing; and (ii) the amount and country of origin of any payment or contract related to the subject matter of the hearing originating with a foreign government.

(D) Such statements, with appropriate redactions to protect the privacy or security of the witness, shall be made publicly available in electronic form 24 hours before the witness appears to the extent practicable, but not later than one day after the witness appears.

Testimony before the House Committee on Agriculture

March 25, 2025

Charles P. Carey, Chairman, Commodity Markets Council

Introduction

Chairman Thompson, Ranking Member Craig, and members of the Committee, thank you for inviting me here today to testify on the history of our markets and our regulatory structure in the United States.

My name is Charlie Carey, I am from Chicago, IL, and I have been a trader and market observer most of my life. I was honored to serve as the Chairman of the Chicago Board of Trade in the mid 2000s until we merged with the CME Group in 2007. I joined the exchange in 1976, my grandfather served as Chairman in the 1930s as did my uncle in the mid 1960s. I guess you could say it runs in my blood. I am honored to appear before the committee today on behalf of an organization I Chair, the Commodity Markets Council (CMC).

CMC was founded over 90 years ago and was originally called the National Grain Trade Council. Today, CMC is the leading Washington DC-based trade association that brings agriculture and energy traders together with commodity exchanges, and its members including commercial end users that utilize futures and swaps markets for agriculture, energy, metal, and soft commodities as well as designated contract markets (DCMs), futures commission merchants (FCMs), and swap execution facilities (SEFs). While its membership has expanded over the years, its mission has remained the same: CMC advocates for an open, competitive marketplace by combining the expertise, knowledge, and resources of our members to develop and support market-based policy. For decades, we have supported both the principled regulation of and responsible innovation in derivatives markets, which ultimately serve as the most robust and resilient risk management markets in the world.

History of Regulation

The CFTC first opened its doors in 1975, which is the same year I started trading corn. It is hard to believe that was 50 years ago. So, the CFTC, along with my trading career, are turning 50. The CFTC was preceded by the Commodity Exchange Administration, which was created in the mid 1930s to oversee the agricultural futures markets and was part of the Department of Agriculture. The Commodity Exchange Administration was preceded by the Grain Futures Commission authorized in the 1920s by Congress. As far back as the 1880s, Congress considered various pieces of legislation to regulate, ban, or tax futures trading.

All regulatory authority, prior to the creation of the CFTC, was limited to futures on contracts listed, or "enumerated" in the law. The statutory update in the mid 1970s gave this new agency jurisdiction over all futures transactions. As the markets evolved to include futures on non-agricultural commodities, broader policing of these new markets began.

Purpose and Function of Derivatives Markets

Derivatives markets are where businesses go to manage risk. Managing this risk has always been a vitally important aspect of the commodities world, especially today given the geopolitical and economic uncertainty the world has experienced in recent years. I serve on the board of the CME Group, a Chicago-based futures exchange that continues to break annual volume records almost every year, given the increase in demand for risk mitigation. Price risk, risks of weather, interest rate fluctuation, foreign currency risk, as well as geopolitical risks are examples of exposures that are managed on US exchanges.

Exchanges have a required robust self-regulatory function, and the CFTC has direct oversight of that function as well as the exchanges, clearinghouses, and intermediaries in US markets. Our markets are the deepest, most liquid, efficient derivatives markets in the world. Clear, transparent, tough, and flexible regulation is a contributor to the success of our markets.

US derivatives markets are where the world comes for price discovery and risk management. As examples, our agriculture futures contracts on corn, soybeans, and wheat serve as global benchmarks for the underlying commodities, meaning businesses around the world use our US futures to hedge their risk. That is a distinction we in the US are proud of, but it is also something Congress and regulators must always be mindful of, as global liquidity is portable and can move to other jurisdictions, and it will always be to our advantage for global benchmarks to be subject to US oversight and priced in US dollars.

Make no mistake, derivatives markets face global competition, and I believe it is important to the American risk manager, which includes our US farmers, for these global benchmarks to remain anchored in the United States. Right-sized regulation and a regulator who understands the markets are key elements of our competitive position. Since 1975, the CFTC, under the oversight of this Committee and the Senate Agriculture Committee, has served a leadership role in ensuring our markets have the right amount of regulation. They've been tough on wrongdoers and pragmatic on problem solving and fostering innovation.

While our markets have been resilient over the years, they have been tested. As I reflect on 50 years of observing our derivatives markets, I think of the times in that history where market functions have been stressed. During 9/11 our markets were closed as industry worked with our regulators and the White House to get the markets back up and functioning. As historically horrific as that time was, the partnership between the government and the industry was excellent and ultimately led to the reopening of these critically important markets in only a few days.

During the financial crisis in 2008, confidence in the condition of swaps market counterparties was low. Futures markets and their clearinghouses served as safe havens for parties seeking risk management and price discovery. Our markets performed well during that stressful time in our nation's history. The system of exchanges, clearinghouses, and intermediaries was resilient, leading Congress to pass the Dodd-Frank Act, requiring more transaction be put through this model to reduce systemic risk.

Right-Sized Regulation

In the face of global competition in the late 1990s, Congress had the vision to pass the Commodity Futures Modernization Act of 2000 (CFMA), which transformed a prescriptive, rule-based regime into a more modern and flexible core principles model. Simply put, these core principles allowed the regulated market flexibility in how they met the required standards, which in turn spurred American innovation. The CFTC's principles-based regime has, as part of its mission, a mandate to promote responsible innovation and competition in the marketplace. A principles-based model is especially effective in the regulation of new asset classes because it allows the regulator to set out the desired regulatory outcomes but permits market participants to decide the products and contract structures they need to manage their risk.

The CFMA also permitted exchanges to self-certify new rules and new contracts, which led to new ideas going to market much faster than in the past, allowing exchanges to innovate and compete globally when new risk management was necessary. This regime remains in place today and has served the US industry well.

Markets have benefited from the CFTC's approach to regulation and its long history of taking on the oversight of new and innovative products. It would be hard to imagine back when CFTC-regulated exchanges listed only agricultural commodity-based products that these same exchanges would be listing contracts based on foreign currency, interest rates, the S&P 500, volatility indexes, and more. The CFTC has a history of vetting and approving new types of exchanges to trade new, innovative products, including climate, interest rate, event contracts, and digital assets.

Role of the End User

Our CMC end user members are merchandizers, who serve as buyers and risk managers on the raw commodity side, as well as sellers and risk managers to the ultimate businesses which will process or manufacture the commodity into a finished product to be sold to consumers. These consumers are the American public that shops at the grocery store and pays an electric or gas bill. Our members buy grain from farmers at a flat price, giving the farmer price certainty for their crop, which is critical for crop financing.

Derivatives markets offer the tools necessary for our members to offer that flat price to farmers by locking in prices in the future. This function is not just important to direct users of the markets, but the broader economy. While most Americans do not tangibly see this critical marketplace and the shock absorber it provides, it is nonetheless critical to our businesses and citizens.

From the price of gasoline we put in our car, to the milk we buy at the grocery store to the electricity or natural gas that powers our homes, derivatives markets provide price discovery and risk management to the industry that supplies these goods to us. We may not always like the ultimate price of the goods we buy, but our markets allow businesses both small and large to manage volatility, which can be unpredictable and disruptive if not properly managed. Most of us do not know how the internet works, but we would be lost without it. The same analogy holds true for the reliability and price of finished goods and the role of risk management markets.

The end user, without these vital tools, would be exposed to upside price pressure in buying the raw commodity and downside price pressure in selling the raw commodity to a processor or manufacturer. Without liquid and reliable markets, the end user merchandizer would lack protection from unknown risks, aside from bidding a below-cash-market-price to the farmer and a higher-than-cash-market price to the processor.

Liquidity provision is often described as speculation and is also a key contributor to the success of our markets. When the end user goes to the market to hedge a position, there needs to be someone there to fill that order. Liquidity providers do just that. When I started, those liquidity providers were standing in the trading pits next to the end user hedgers. Now, these markets are overwhelmingly electronic and many of the liquidity providers are algorithmic. These firms are highly competitive and sophisticated. Fills today are faster and cheaper per contract than at any other time in the history of our markets. The role of the speculator is a necessary part of a healthy derivatives ecosystem.

Conclusion

The flexible regulatory regime for derivatives we have in the US serves as a forward-looking model that has served our markets well. The CFTC is somewhat unique in structure because of this flexibility. In my view, the agency has embraced the model for the benefit of our industry and, most importantly, our global position. Innovation has been observed over the years in these markets.

It is important that the markets our farmers use are subject to rules you as a Committee oversee. It is critical we keep these markets in the US subject to US rules. The CFTC knows these markets best. As we look to the next 50 years, I am confident in a couple of things: First, I will likely not be around to observe all of them. And second, we will continue to enjoy deep, liquid, and strong derivatives markets as long as we are allowed to innovate, and our regulation remains specialized, focused, and right-sized.

Thank you for the opportunity to share my thoughts today on behalf of the Commodity Markets Council. I am happy to answer any questions.