

Committee on Agriculture – U.S. House of Representatives
Review of Derivatives Legislation: Feb. 3, 2009

Witness: Tom Buis, President National Farmers Union

Summary: NFU strongly endorses this bill and looks forward to its swift approval.

- NFU commends the broad, bipartisan support for increased oversight and transparency with the House-passed Commodity Markets Transparency and Accountability Act of 2008.
- NFU also holds that the Derivatives Markets Transparency and Accountability Act (DMTAA) of 2009 would be of even greater benefit to agricultural producers and the entire economy.
- NFU holds that the single biggest concern among producers is a lack of market transparency.
- Provisions within the DMTAA seek to inject the necessary transparency through the detailed reporting and disaggregation of market data and the over-the-counter transparency and recordkeeping authorities as outlined in the legislation.
- These provisions allow the public to become aware of who is involved in commodity markets and to what capacity.
- These new authorities are needed to ensure regulators are able to keep pace with the use of new financial and market instruments that result in market manipulation, fraud or excessive speculative market volatility.
- NFU calls for an investigation to determine the role and impact that OTC trading and swaps have on markets.
- Without access to such information, it is impossible to determine whether manipulation, fraud, or excessive speculation is occurring.
- DMTAA requires all prospective OTC transactions to be settled and cleared through a CFTC regulated clearinghouse or other appropriate venue.
- The addition of principles for the designated clearing organizations will protect the integrity of the new OTC requirements by assuring the clearinghouses remain transparent.
- These principles include:
 - o Daily publication of pricing information,
 - o Fitness standards,
 - o Disclosure of operational information
- The legislation also requires the CFTC to study and report on the effects of potential position limits within OTC trading.
- This information will enhance the public's confidence that markets are not being manipulated, fraudulently exploited or overwhelmed by speculation and if so, corrective action can occur.
- When left unregulated and allowed to become excessive, the positive attributes that speculators bring to the markets undermines the legitimate price discovering and risk management functions these markets were designed to provide.
- NFU supports the DMTAA's establishment of new standards and limits for all commodities.

- NFU also supports the establishment of a Position Limit Agricultural Advisory Group, as it involves producers and traditional users of the market in making recommendations concerning position limits.
- NFU believes this third-party review function can significantly help in ensuring market integrity in the future.
- NFU holds that the CFTC needs to take a broader look at the concept of manipulation and its implications for price discovery.
- NFU appreciates the provision within the legislation that will protect the integrity of carbon credit trading by requiring those contracts to be traded on a designated contract market.