<u>**Reuters**</u>

Obama Administration Mum on Derivatives Regulator
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The Obama administration has yet to take a position on which U.S. agency should oversee credit derivatives, which have fallen through regulatory cracks and been blamed for wreaking havoc on the financial system.

The Federal Reserve, the U.S. Securities and Exchange Commission and the Commodity Futures Trading Commission are among the slew of federal regulators that already oversee parts of the financial system.

Which agency is ultimately chosen by Congress to oversee the trillion dollar market will determine how dealers and users of credit derivatives have to comply with the White House's call for more transparency.

The Obama administration wants many derivatives to be traded on exchanges or clearinghouses, rather than over-the- counter (OTC). The administration also wants users of derivatives to have a capital cushion to protect themselves and the markets if something goes wrong.

The choice of regulators pits two powerful House committees -- Financial Services and Agriculture -- against each other, although their chairmen have vowed to work together. "This is a curious proposal in that it is silent on jurisdiction while discussing a product area already known for its ambiguous regulatory jurisdiction," said an industry source.

The SEC polices securities markets and the CFTC oversees the futures industry. Many financial instruments fall under both agencies' jurisdiction, complicating regulation of products such as credit default swaps -- a derivative blamed for exacerbating the financial crisis.

The Financial Services Committee, chaired by Democrat Barney Frank, is working on a package of legislation to overhaul U.S. financial regulation.

Spokesman Steven Adamske said Frank was starting with the question of how to supervise systemic financial risk. He said some derivatives issues will be "caught up" in systemic risk.

Various policymakers have been pushing for a single entity to monitor risk in the financial system after the government rescued firms such as insurer American International Group Inc(AIG.N), which held significant amounts of credit default swaps and posed a risk to the economy.

If the Fed is designated as the systemic risk regulator, the industry source said: "I would think that it's reasonable to conclude that the Fed should be overseeing significant market participants in derivative space."

Members of the House Agriculture Committee, which has oversight over the CFTC, are heartened because some elements of the administration plan are similar to provisions in an anti- speculation bill the committee passed in mid-February that also would put the CFTC in charge of OTC clearinghouses.

"The administration outline closely parallels the work our committee has already done in H.R. 977 (the anti-speculation bill) earlier this year," said Frank Lucas, the Republican leader on the committee. "This announcement also recognizes the strong role CFTC has in regulating the derivatives industry."

Republican and Democratic staff workers suggested the similarities are a sign of support for the committee bill, which is on a parliamentary sidetrack for review by the Financial Services Committee.

Besides overlapping the jurisdiction of Financial Services, the anti-speculation bill raises policy questions. It would bar the Fed from regulating clearinghouses for OTC transactions.

Agriculture chairman Collin Peterson has said House Democratic leaders, including Speaker Nancy Pelosi, will make the final decision on conflicts between the two committees.

While the House moved quickly on financial reform this year, the Senate Agriculture Committee appears to be weeks away from drafting a bill. Chairman Tom Harkin would move all OTC derivatives to publicly regulated exchanges.