Reuters

Position-Limit Power for CFTC Faces Opposition
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By Charles Abbott

The U.S. regulator of futures markets should not impose aggregate position limits on holdings even if financial reform legislation allows them, a futures industry group said on Thursday.

Regulators would gain authority to set position limits across all markets as part of an Obama administration proposal. The plan also would bring over-the-counter derivatives, blamed for amplifying last fall's economic distress, under U.S. regulation.

The administration would require standardized OTC derivatives to go through central clearinghouses and encourage trading in them to move to regulated exchanges -- steps intended to bring stability to the market. "Customized" derivatives would be subject to reporting and recordkeeping.

"My biggest concern is we're not moving this fast enough," Agriculture Committee chairman Collin Peterson told reporters. He said it would be difficult to clear a bill this year.

Later in the day, Peterson said the House Financial Services Committee planned to draft an omnibus reform bill in late October, a somewhat faster timeline than he had expected. "People are getting frustrated," he said, describing sentiment among House members.

Peterson said he raised with Speaker Nancy Pelosi the idea of a separate bill to toughen CFTC anti-speculation powers. His committee approved a bill in February that requires clearing of OTC transactions and expands CFTC authority to set position limits and to require foreign exchanges to match U.S. reporting rules. At present, the bill would become part of an omnibus bill.

During an Agriculture Committee hearing on the administration plan, the panel's Republican leader, Frank Lucas, said its proposals on OTC derivatives "will do nothing but increase costs" for businesses that want to lock in prices for raw materials.

"Why do we need to go beyond increased transparency to government regulators?" asked Lucas.

The Futures Industry Association said position limits, which set a ceiling on the market share that anyone can hold, traditionally are used to prevent price squeezes during the final month of trading on contracts of physical commodities, such as grain or oil.

"FIA would expect the (Commodity Futures Trading) Commission to use its new stand-by position limit authority consistent with the unassailable role for position limits," said FIA President John Damgard.

The Intercontinental Exchange called for elimination of an administration proposal that it said would let CFTC set position limits "on any contract" on a foreign exchange.

Another trade group, the International Swaps and Derivatives Association, and ICE saw flaws in mandatory clearing and on-exchange trading.

"Not all standardized contracts can be cleared," said ISDA chief executive Robert Pickel. He pointed to thinly traded contracts.

CME Group Inc, Chicago-based operator of derivatives exchanges, said CFTC should be allowed to set position limits "only if the relevant regulated market has failed to act" and only to prevent unreasonable market fluctuations.

The CFTC held hearings during the summer ahead of a decision whether to write rules that would allow it to set position limits on oil contracts. At present, CFTC has power to limit agricultural contracts.

Meanwhile, "end users" -- processors, distributors and businesses -- said they needed an exception from mandatory clearing. The American Public Gas Association, an umbrella group for publicly owned distributors of natural gas, said members often pledge noncash assets as collateral for over-the-counter deals.

"We have equity, but we don't have cash on hand," said Glenn English, speaking for rural electric cooperatives.

English said "legitimate hedgers" should be allowed to conduct business without facing high margin calls.

The Air Transport Association, representing commercial airlines, and Cargill Inc, the mammoth grain processor and exporter, also asked Congress to allow users to hedge prices through derivatives and futures markets without the costs usually associated with clearing.

The Securities Industry and Financial Markets Association said suggestions that end users could post noncash assets was not realistic because clearinghouses operate on a cash basis.