Commodity Futures Trading Commission
Roundtable on Derivatives Clearing Organizations
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First, I would like to thank the Commission for hosting this roundtable in order to open a dialogue regarding what has become an extremely important issue for FCMs, their clients, and the industry as a whole.

I don't want to repeat much of the detail that some of the exchanges, clearing organizations, and industry groups will likely focus on, but would instead like to give you some thoughts on how the existing clearing environment affects Goldman Sachs as an FCM.

Goldman Sachs, as you know, is one of the largest FCMs. We are required to post collateral and settle variation on a daily basis with a multitude of clearing organizations both in the US and around the world. The inefficiencies and additional strain on the system due to the existing structure, costs our firm and our clients hard dollars. We feel that a major reason for this inefficiency is because, at least in the US, futures execution and clearing are generally linked. Greater competition in the clearing space can add tremendous value to the industry and its clients. Competition would mean that FCMs could **choose** which clearinghouse would clear their customer and house positions. This choice will ultimately <u>increase</u> efficiency and <u>lower</u> costs, as opposed to the cumbersome and costly structure we have today.

There are many similarities in the services provided by FCMs and clearing organizations. FCMs compete with each other for business, and clients generally choose one FCM to centrally clear their portfolio. The fact that clients can choose one FCM provides value in that they can consolidate their positions, settle variation, manage their risk, and optimize their use of collateral with one counter party. The selection criteria generally used by clients when deciding which FCM to use includes the FCM's management, reputation, risk policies, capital, fees/commissions, and value-added services. These services are essentially identical to those that a clearing organization offers its clients (in this case FCMs).

We feel that FCMs, as distributors for exchanges and as clients of clearing organizations, should be allowed the same ability to choose the best clearing organization to house their aggregated client portfolio. The selection criteria would likely be identical to that of a client choosing an FCM. The results would be the same as those realized by our clients every day -- reduced cash flow, reduced costs, more effective risk management and, frankly, a more secure, safer financial system.

Unfortunately, the current environment doesn't allow competition to exist in the clearing space. The fact that exchanges are able to control where their successful products clear (often with the objective of creating a revenue stream) removes any incentives for common clearing or centralized coordination between organizations.

Of course, certain organizations should be commended for their efforts to provide value-added services, sound risk management, and limited cross-margining agreements. Unfortunately, the value these limited programs create only gets us so far because they only relate to the captive products that the relevant exchange controls.

We need to get to the next level and create a true competitive environment whereby clearing organizations can vie for clients in the same fashion FCMs vie for clients. Thank you.