



Commissioner Walter Lukken

Presentation to the Agricultural Advisory Committee Meeting
July 21, 2004

Commodity Futures Trading Commission (CFTC)

- Independent agency created in 1974 to oversee U.S. commodity futures and options markets
- Protects market participants against manipulation, abusive trade practices and fraud
- Fosters price discovery through liquid, fair and financially secure trading facilities
- Periodic reauthorization, which expires Sept. 30, 2005

Funding the CFTC



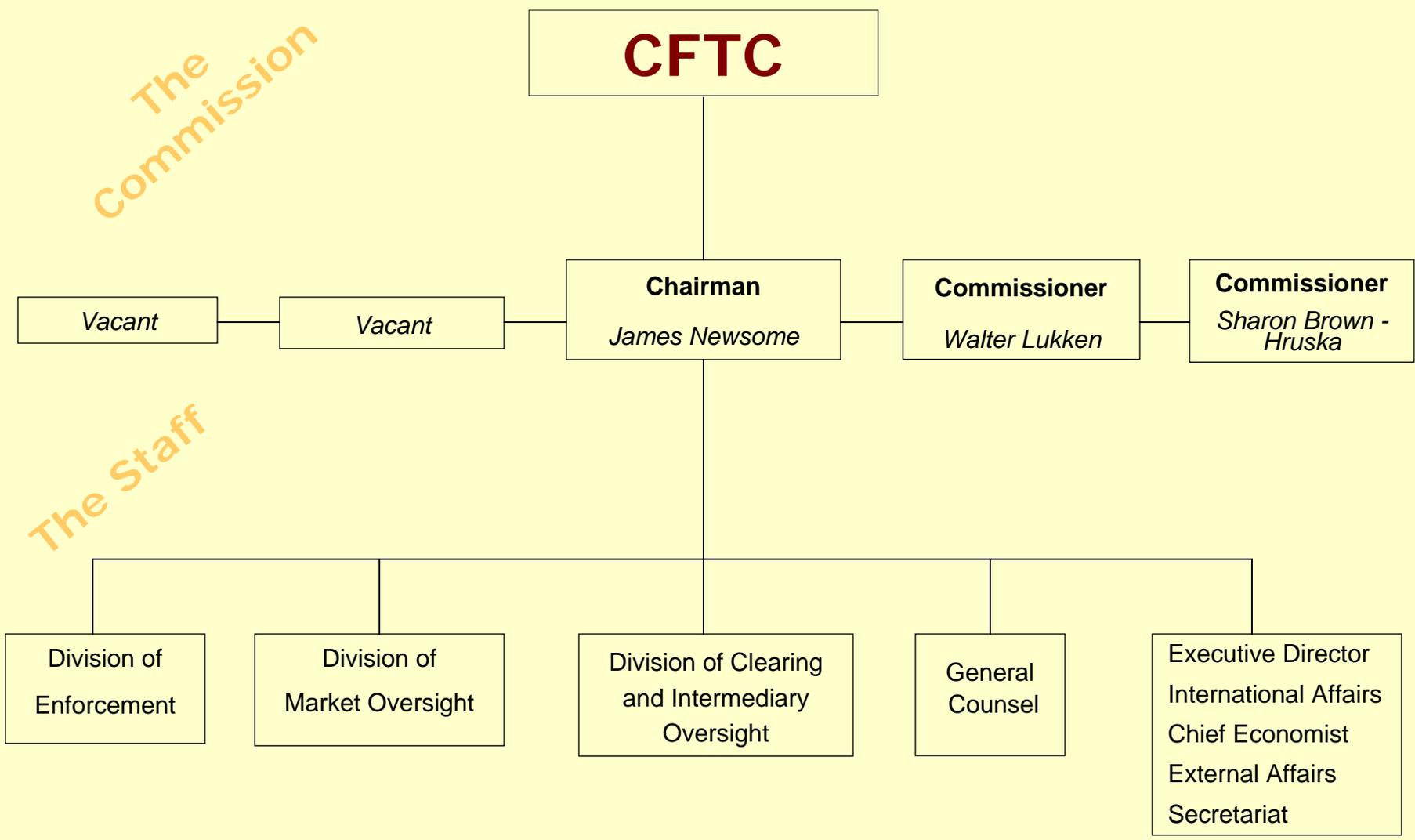
Annual Agricultural
Appropriations Bill

FY '04 – \$90 million

No industry transaction
fees

The Commission

CFTC



Division of Market Oversight (DMO)

- Market Surveillance
 - Oversees markets using CFTC's large trader reports to ensure that commodities are not being manipulated
 - Provides weekly surveillance briefings to the Commission (Agricultural products and other physical commodities are most often the subjects of these briefings)
- Market and Product Review
 - Reviews new market and product applications to ensure they comply with the Commodity Exchange Act (CEA)
- Market Compliance
 - Conducts periodic audits to ensure exchanges comply with the CEA

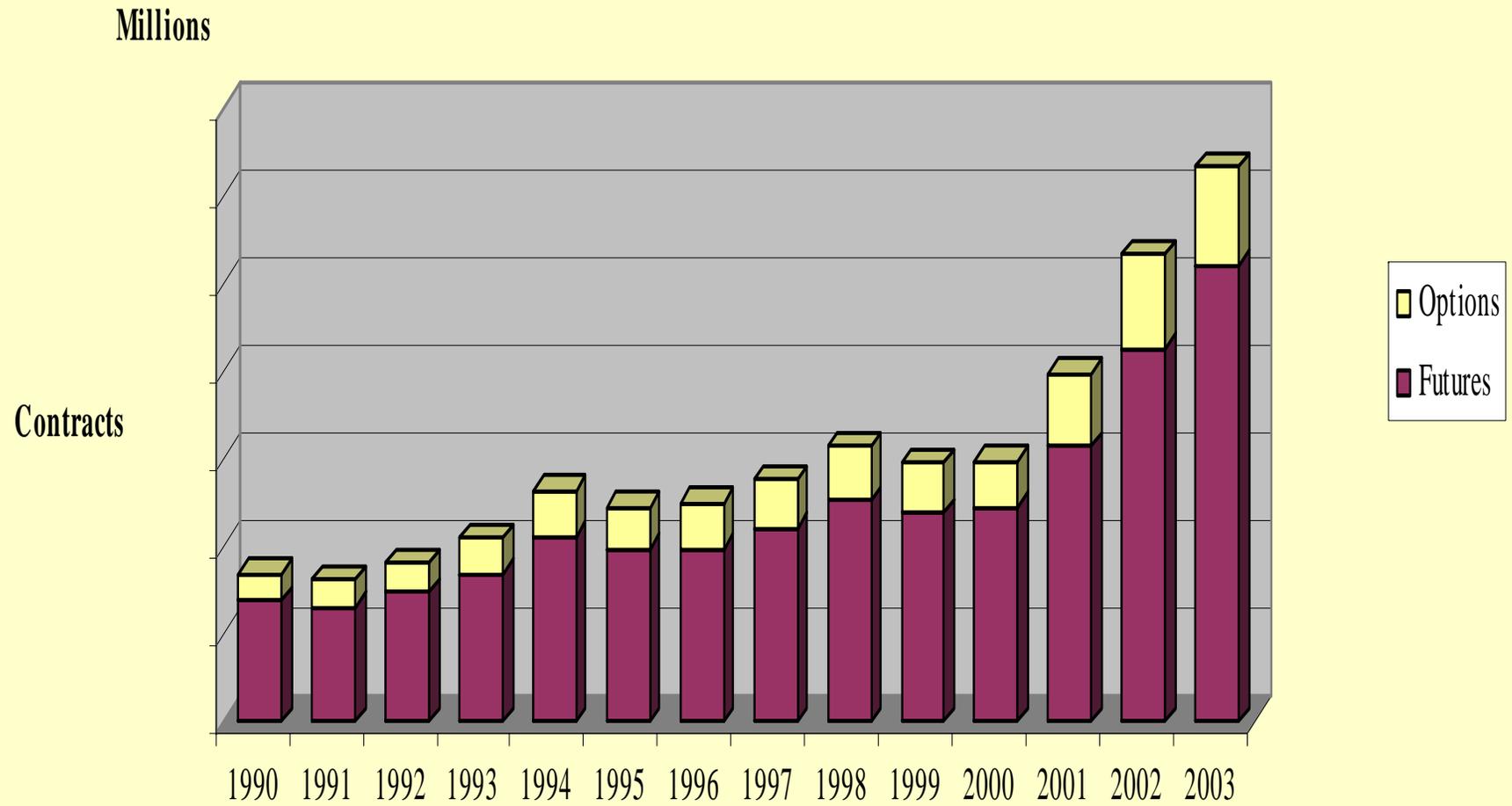
Division of Clearing and Intermediary Oversight (DCIO)

- Intermediary Policy and Oversight
 - Oversees futures market intermediaries (e.g., FCMs, APs) to ensure financial integrity and protection of customer funds
- Clearing Policy and Oversight
 - Designates and oversees clearing houses to ensure financial integrity

Division of Enforcement (DOE)

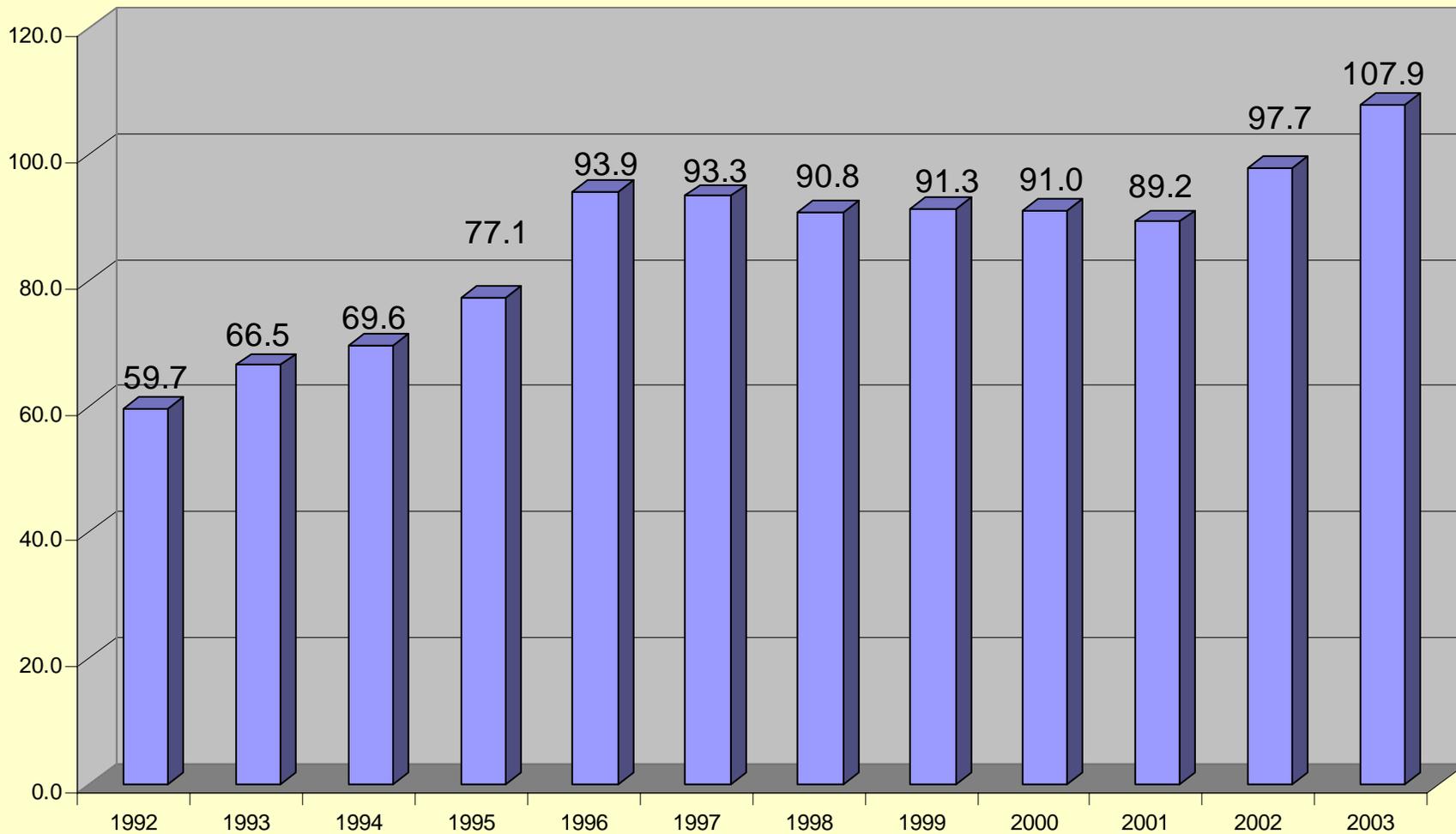
- Litigation arm of the agency that enforces violations in the commodity laws, including fraud, manipulation, false reporting, trade practice and registration violations
- Largest CFTC Division

Total Futures and Options Volume 1990 - 2003

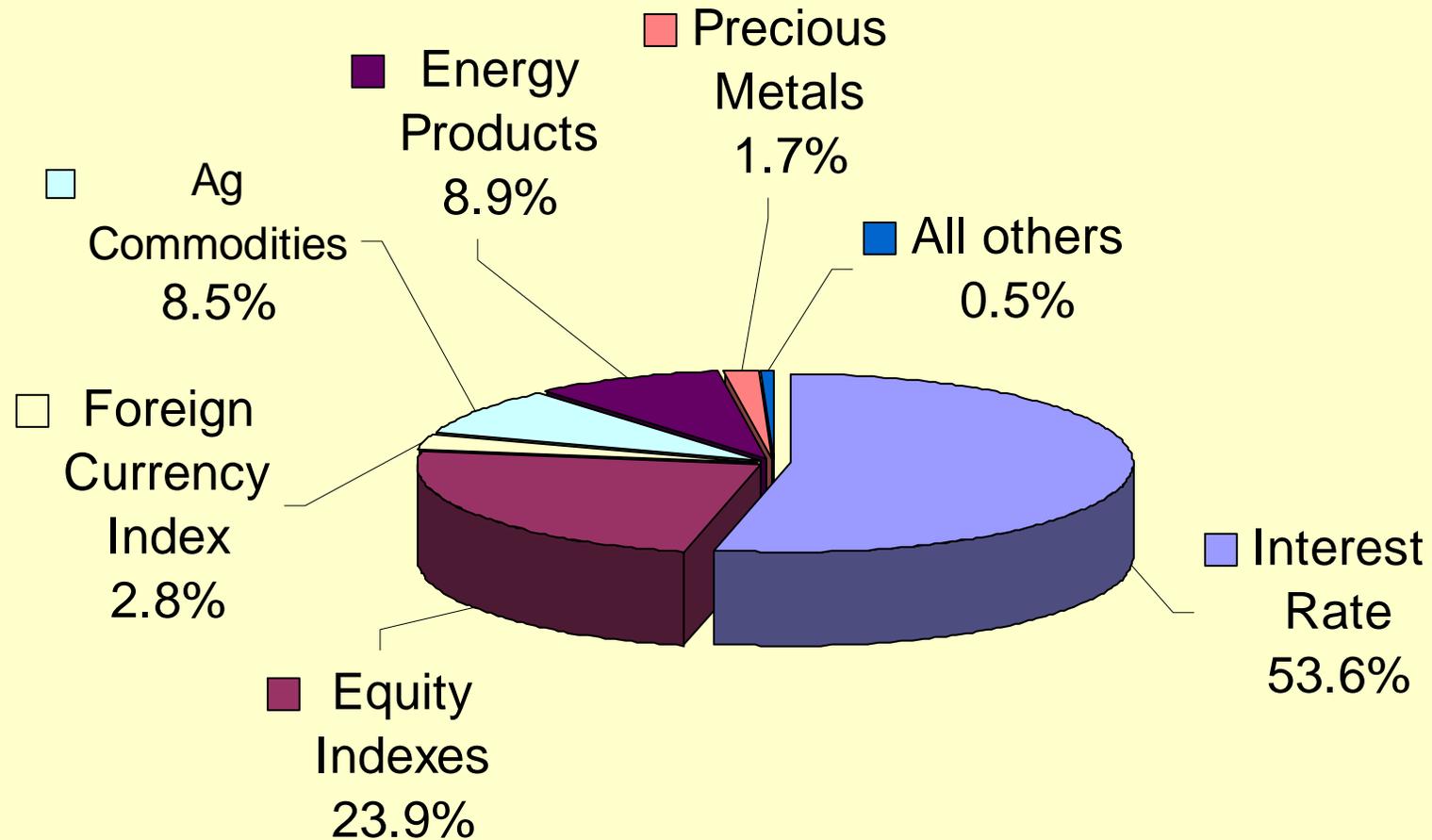


Total Volume in Agricultural Futures and Options Markets 1992-2003

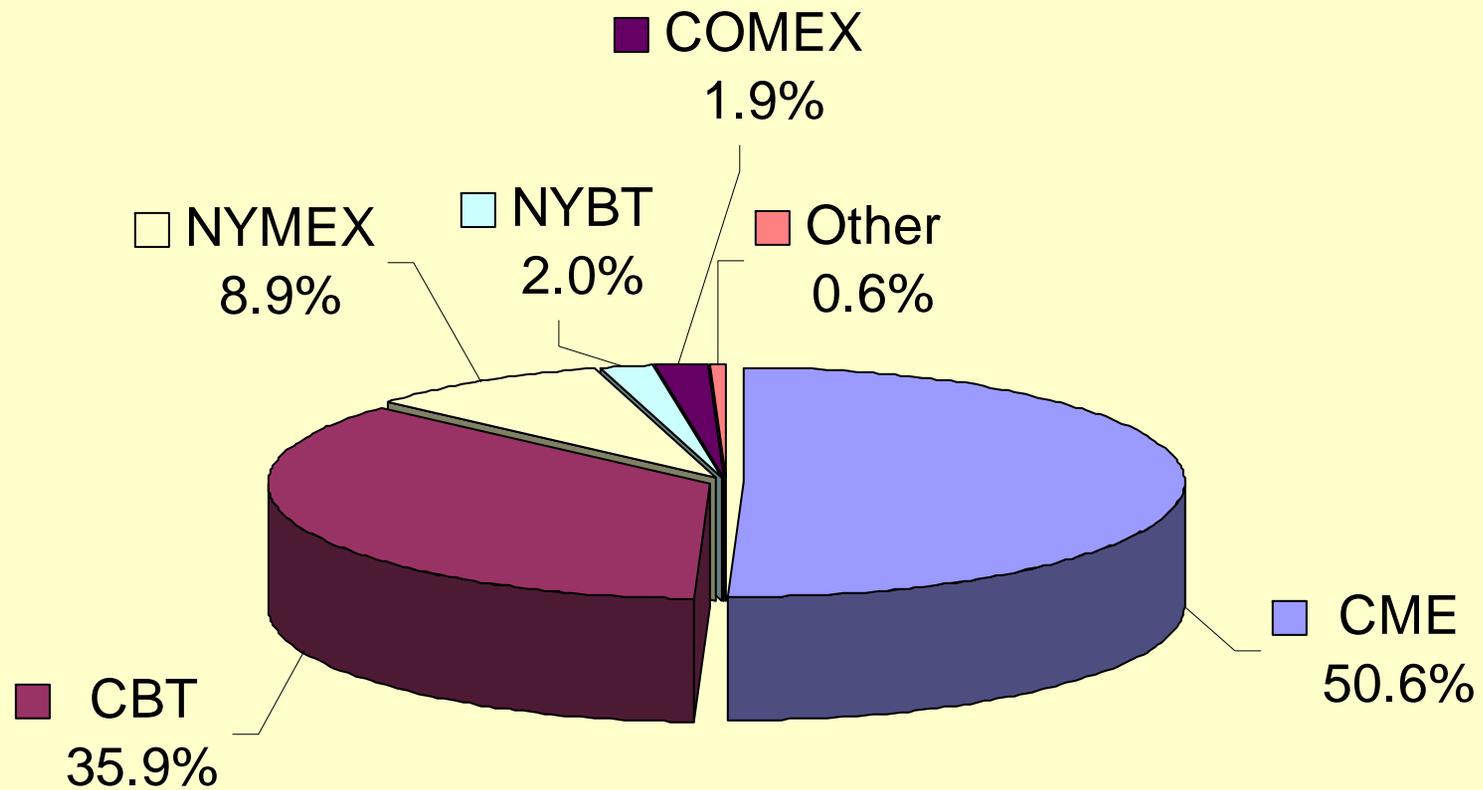
Contracts in
Millions



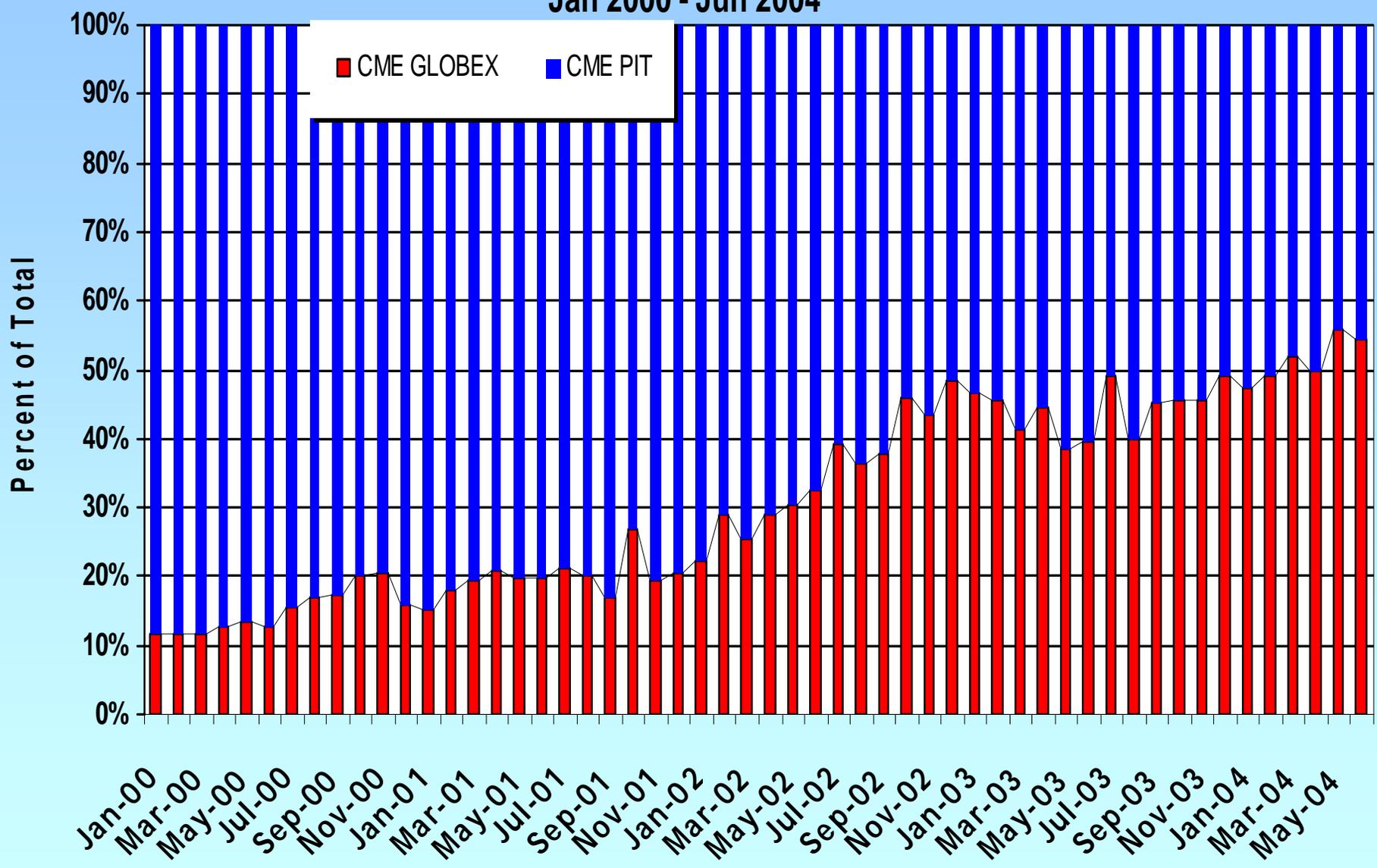
2003 FIA Total Volume by Group



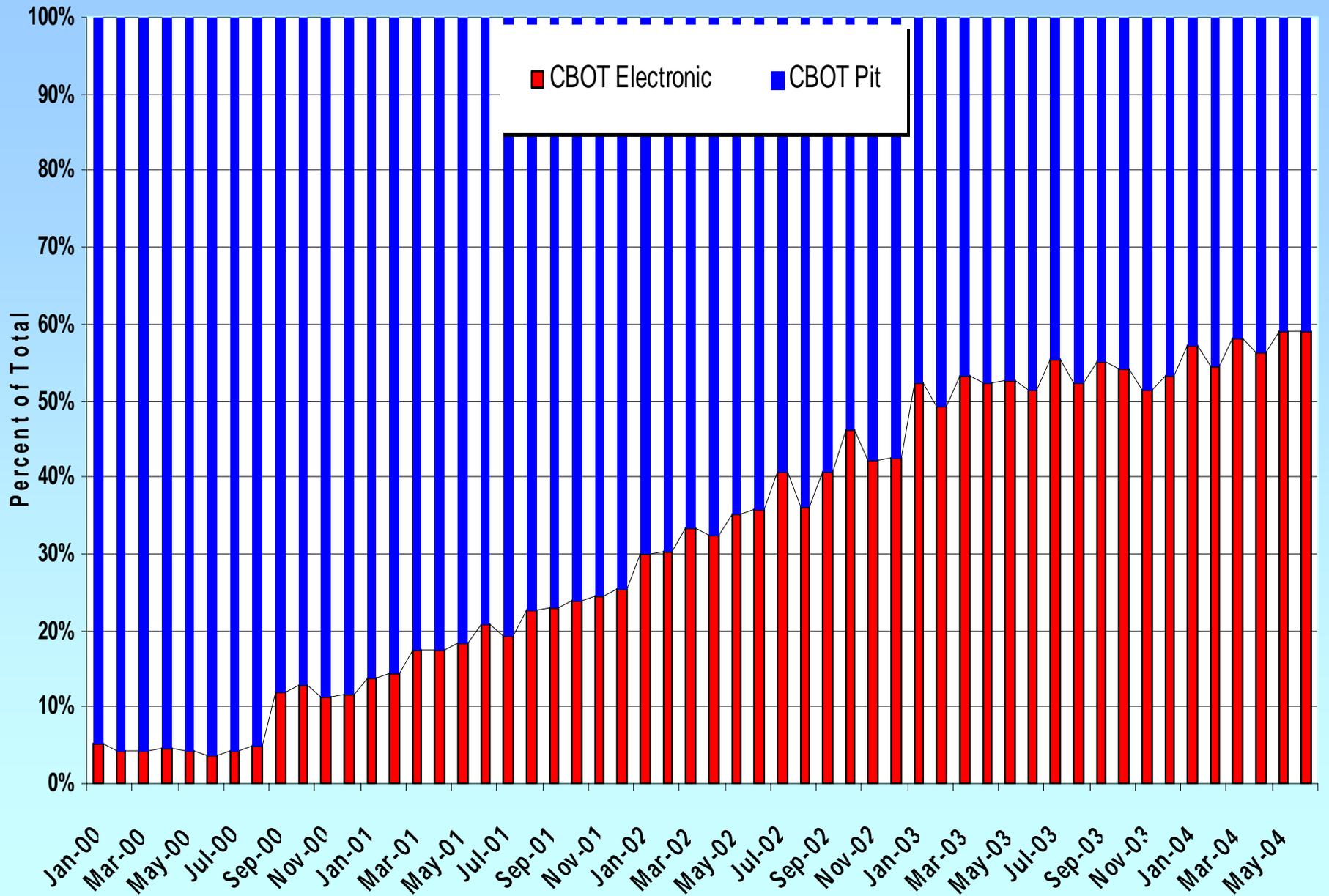
2003 FIA Volume by Exchange



CME VOLUME GLOBEX vs. PIT Jan 2000 - Jun 2004



CBOT VOLUME
ELECTRONIC vs. PIT
Jan 2000 - Jun 2004



The Commodity Futures Modernization Act of 2000 (CFMA)

President's Working Group (PWG) issued Report on
OTC Derivatives, Nov. 1999--

1. There is a strong public policy to provide legal certainty to the OTC derivatives market by excluding financial OTC products between sophisticated investors from the CFTC's jurisdiction.
2. There is a public interest to provide regulatory reform for the futures markets and its participants.
3. Lifting the ban on single- and narrow-based security futures products is attainable if a joint regulatory structure between the SEC and CFTC is provided.

Three Legs of the CFMA

- I. Legal Certainty** – Generally exclude from CFTC’s jurisdiction if:
- Product being traded is not readily susceptible to manipulation (financial products)
 - Entity or person trading the product is a large, sophisticated customer
 - Institutional customers trading financial products are generally otherwise regulated by other government agencies (Fed, FDIC, SEC, state insurance regulators)

Three Legs of the CFMA

II. Regulatory Reform for the Exchanges

- Created tiered regulatory structure for exchanges based on the types of products being traded and the sophistication level of the traders
- Shifted from frontline regulator to oversight agency through the adoption of “Core Principles”
- Allowed exchanges to self-certify products and rules without prior CFTC approval (except material rule changes on listed enumerated agricultural products with open interest)

Three Legs of the CFMA

III. Security Futures Products (SFPs)

- Lifted the 18-year Shad-Johnson ban on single-stock futures
- Provided outline for CFTC and SEC to jointly regulate these products
- OneChicago and NQLX have been trading SFPs in the U.S. since November 2002 with limited success

CFMA Agriculture Issues

- Congress continued to recognize agricultural products as a special class of commodity deserving of greater oversight
- Congress chose not to address in 2000 the HTA cases or the cash or forward exclusions for agricultural products
- Congress required report on making futures exchanges more accessible to agricultural producers, which was completed and delivered to the Congress (www.cftc.gov/cftc/cftcreports.htm)

Possible Agricultural Policy Issues for the Next Reauthorization

- Is there a need for greater legal and regulatory clarification for off-exchange risk management products?
- Should “agricultural” commodity be defined due to the term’s use in the CFMA exclusions, exemptions and other sections (i.e., corn vs. ethanol)?
- Should Congress continue to treat the oversight of agricultural products differently than other commodities?

