

Chairman's Transmittal Letter

February 1, 2010

The Honorable Daniel K. Inouye
Chairman
Committee on Appropriations
United States Senate
S-128 Capitol Building
Washington, D. C. 20510

The Honorable Thad Cochran
Vice Chairman
Committee on Appropriations
United States Senate
S-128 Capitol Building
Washington, D. C. 20510

The Honorable David R. Obey
Chairman
Committee on Appropriations
United States House of Representatives
H-218 Capitol Building
Washington, D. C. 20515

The Honorable Jerry Lewis
Ranking Republican Member
Committee on Appropriations
United States House of Representatives
H-218 Capitol Building
Washington, D. C. 20515

Dear Senators Inouye and Obey and Representatives Cochran and Lewis:

In the fall of 2008, the financial system and the financial regulatory system failed. While more than a year has passed and the system appears to have stabilized, we cannot relent in our mission to vigorously implement our mandate to protect the public from fraud, manipulation and other abuses in the commodity markets. The Commodity Futures Trading Commission (CFTC) needs additional resources to promote transparency and market integrity. Only through strong, intelligent regulation can we fully protect the American people and keep our economy strong.

As we began FY 2010, the Commission had on-board more than 580 staff. While this gets us back to our staffing levels ten years ago, it is just a start. I believe that merely raising our staffing levels to the same as a decade ago will not be enough to adequately fulfill the agency's statutory mandate. In the last ten years, trading volume went up almost five-fold. The number of actively traded futures and options contracts went up seven-fold, and many of these have become considerably more complex in nature. We also moved from an environment with open-outcry pit trading to highly sophisticated electronic markets. What was once a group of regional domestic markets is now a global marketplace. What was once just a \$500 billion business has grown to a \$33 trillion industry.

Therefore, I am pleased to transmit to you the CFTC's Budget and Performance Estimate for FY 2011. This budget requests, for currently existing statutory authorities, an appropriation of \$216,000,000 and 745 staff-years. For proposed new authorities related to financial regulatory reform, the budget requests an appropriation of \$45,000,000 and 119 FTE, for a total request of \$261,000,000 and 864 FTE.

The \$216,000,000 requested for current authorities is an increase of \$47,200,000 and 95 staff years over the estimated FY 2010 appropriation of \$168,800,000 and 650 staff years. The increases requested are critical to providing the CFTC with the resources required to ensure that the Nation's futures markets operate without disruption.

The requested funding increase includes resources for the following:

- Updating the Commission's Surveillance and Technology Programs. The Commission requires additional resources to replace legacy surveillance equipment with 21st Century computers. Significant changes in the markets demand new systems capable of efficiently receiving and managing massive amounts of raw data and converting it to useful market information for analysis by skilled market experts, economists and technologists. Upgraded systems and analytical tools, such as detection alert software, will increase the staff's ability to monitor the markets and provide better information about futures and options trading to the American public. This transparency and new level of oversight will foster market integrity.

- Boosting the Commission's Clearing and Intermediary Oversight Program. Additional resources would allow the Commission to perform regular and direct reviews of registrants and more frequently assess compliance with Commission regulations. In the case of intermediaries, the Commission requires additional resources to directly assess compliance instead of relying on designated self-regulatory organizations (DSROs). The frequency of the reviews will increase from once every three years to annually. New staff will permit the review annually of all derivatives clearing organizations (DCOs), designated contract markets (DCMs) and the audit and financial surveillance programs of each DSRO ensuring ongoing rather than intermittent oversight.
- Strengthening the Commission's Enforcement Program. The CFTC should be adequately resourced to vigorously investigate and litigate complex market manipulation and trade-practice violations. Properly functioning markets must be free from fraud, manipulation and other abuses to ensure their integrity in setting price and offsetting risk. This budget provides funding to grow the Enforcement staff to 200 in FY 2011, from a staff of 121 in FY 2009. A robust Enforcement program will foster regulatory compliance in the marketplace, protecting the American public and the marketplace. Adequate legal staff is necessary to act swiftly to investigate and prosecute fraudulent schemes, such as the rash of Ponzi schemes experienced after the recent market downturn.
- Rigorously Exercising Existing Authorities to Ensure Market Integrity. Additional economic and legal staff will allow the annual review of all contracts listed on exempt commercial markets (ECMs) to determine if they are significant price discovery contracts (SPDCs). Such contracts must be reviewed to determine compliance with a stringent set of CFTC Core Principles under the Commission's regulations. These and other new and increasingly diverse products add to the scope and complexity of products staff must review and monitor to ensure the integrity of the marketplace.
- Establishing Enterprise Risk Management. This program would identify plausible risks that may affect the CFTC's ability to respond effectively and assess risks and determine an appropriate response strategy. The objective is to proactively address enterprise-wide risks so that the CFTC may discharge its responsibilities without any obstacles.
- Initiating Major Reviews of Existing Programs. The Commission seeks additional resources to initiate major programmatic reviews of existing programs; expand development of the Commission's continuity of operations program (COOP); increase public and consumer education and outreach; implement the strategic plan; and improve performance metrics.
- Continuing Current Service Level. The CFTC requires additional resources to provide a continuation of the FY 2010 current service level into FY 2011. This includes annual merit based compensation adjustments for staff, lease of office space, utilities and communications, printing, supplies, capital equipment and fixed equipment.

We are currently working with the Congress to bring comprehensive regulation to the over-the-counter derivatives marketplace and appropriate oversight to any trading markets that may be developed on carbon equivalent allowances as a result of cap-and-trade legislation. In addition to increases relating to existing regulatory responsibilities, this budget requests an additional \$45,000,000 and 119 FTE for FY 2011 to begin implementation of the Administration's comprehensive proposal for financial regulatory reform. The Commission's FY 2012 total (current and proposed new authorities related to financial regulatory reform) staff requirement is estimated to be approximately 1,000 FTE. The requested funds will permit Commission implementation of new responsibilities, such as:

- Requiring swap dealers and major swap participants to register and come under comprehensive regulation, including capital standards, margin requirements, business conduct standards and recordkeeping and reporting requirements;
- Requiring dealers and major swap participants to use transparent trading venues for their standardized swaps;

- Ensuring that dealers and major swap participants bring their clearable swaps into central clearinghouses; and
- Providing the CFTC with authority to impose aggregate position limits in the OTC derivatives markets.

Appendix 3 of this document provides additional supporting detail of the \$45,000,000 and 119 FTE requested for the Administration's financial regulatory reform proposal.

The staff of the CFTC is a talented and dedicated group of public servants. The financial crisis and the significant increase in trade volume, market complexity and globalization command additional resources to effectively protect American taxpayers. For all of these reasons, I feel it is necessary and appropriate for our staffing levels and our technology to be bolstered to more closely match the new financial realities of the day.

In short, despite a recent increase in funding, the Commission remains an underfunded agency. With additional resources, we will be better able to police the market, promote market integrity and protect the public from fraud, manipulation and other abuses.

I am available to discuss this budget request and to answer any questions you may have.

Sincerely yours,

A handwritten signature in black ink, appearing to read "G. Gensler". The signature is stylized with a large, sweeping "G" and a long horizontal stroke at the bottom.

Gary Gensler
Chairman

cc:

The Honorable Blanche Lincoln
Chairman
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The Honorable Collin C. Peterson
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The Honorable Saxby Chambliss
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