



A Message from the Chairman

I am pleased to present the Agency Financial Report for Fiscal Year (FY) 2013. This has been a year of remarkable progress in bringing transparency, access and competition to the swaps market.

Five years ago, the U.S. economy was in a free fall. Five years ago, the financial system and the financial regulatory system failed the American public. Five years ago, the unregulated swaps market was at the center of the crisis.

With 94 percent of private sector jobs outside of finance, President Obama was looking for solutions to ensure finance better serves the rest of the economy.

The reforms of the 1930s had tasked the Commodity Futures Trading Commission (CFTC or Commission) to swim in a very important lane – derivatives. The futures market has allowed farmers, ranchers and producers to lock in the price of a commodity since the 1860s. The derivatives lane, though, got a lot deeper a century later with the emergency of the vast swaps market. Both futures and swaps are essential to our economy and the way that businesses and investors manage risk.

The President placed great confidence in the CFTC when he asked the agency to help bring much-needed transparency and oversight to the dark, closed swaps market.

This confidence in the CFTC was well placed. As we've seen time and again in our nation's history, when faced with real challenges, we Americans from different walks of life and perspectives find a way to come together to solve them.

The talented CFTC staff and my fellow Commissioners – Mike Dunn, Jill Sommers, Bart Chilton, Scott O'Malia and Mark Wetjen – really have delivered for the American public.

The CFTC has finalized 68 rules, orders and guidances. We have completed nearly all of the agency's rulemakings, and the initial major compliance dates are behind us.

These reforms took into account nearly 60,000 public comments and input from more than 2,200 meetings and 21 public roundtables.

During this process, the Commission largely found consensus. In fact, two-thirds of our final actions have been unanimous, and nearly 85 percent have been bipartisan.

Now, bright lights of transparency are shining on the \$380 trillion swaps market. Now, a majority of the swaps market is being centrally cleared – lowering risk and bringing access to anyone wishing to compete.

Now, 91 swap dealers have registered and – for the first time – are being overseen for their swaps activity.

Five years after the financial crisis, the swaps marketplace truly has been transformed.

Transparency

Foremost, the swaps marketplace has been transformed with transparency.

First, the public can see the price and volume of each swap transaction as it occurs.

This information is available, free of charge, to everyone in the public. The data is listed in real time – like a modern-day tickertape – on the websites of the three swap data repositories (SDRs).

Second, building on the CFTC's long tradition of promoting transparency, we recently began publishing a Weekly Swaps Report to provide the public with a detailed view of the swaps marketplace.

Third, regulators also have gained transparency into the details on each of the 1.8 million transactions and positions in the SDRs.

Fourth, starting this fall, the public – for the first time – is benefitting from new transparency, impartial access and competition on regulated swap trading platforms.

We now have 19 temporarily registered swap execution facilities (SEFs) where more than a quarter of a trillion dollars in swaps trading is occurring on average per day.

This pre-trade transparency lowers costs for investors, businesses and consumers, as it shifts information from dealers to the broader public.

Fifth, I anticipate that by mid-February, the congressionally mandated trade execution requirement will become effective for a significant portion of the interest rate and credit index swap markets.

Clearing

The swaps market also has been transformed with mandated central clearing for financial entities as well as dealers.

Central clearing lowers risk and fosters competition by allowing customers ready access to the market.

Clearinghouses have operated successfully at the center of the futures market for over 100 years – through two world wars, the Great Depression and the 2008 crisis.

Reforms have taken us from only 21 percent of the interest rate swaps market being cleared five years ago to more than 70 percent of the market this fall. More than 60 percent of new credit index swaps are being cleared.

Further, we no longer have the significant time delays that were once associated with swaps clearing.

Five years ago, swaps clearing happened either at the end of the day or even just once a week. This left a significant period of bilateral credit risk in the market, undermining a key benefit of central clearing.

Now reforms require pre-trade credit checks and straight-through processing for swaps trades intended for clearing.

With 99 percent of swaps clearing occurring within 10 seconds, market participants no longer have to worry about credit risk when entering into swap trades intended to be cleared.

Swap Dealers

The market also has been transformed for swap dealers.

Five years ago, swap dealers had no specific requirements with regard to their swap dealing activity. AIG's downfall was a clear example of what happens with no registration or licensing requirement for such dealers.

Today, all of the world's largest financial institutions in the global swaps market are coming under reforms.

These reforms include new business conduct standards for risk management, documentation of swap transactions, confirmations, sales practices, recordkeeping and reporting.

With the approval of the Volcker Rule, swap dealers associated with banking entities will have to comply with new risk-reducing requirements prohibiting proprietary trading.

Further, the transformed marketplace covers the far-flung operations of U.S. enterprises, including their offshore branches and guaranteed affiliates.

The President and Congress were clear in financial reform that we had to learn the lessons of the 2008 financial crisis.

AIG nearly brought down the U.S. economy through its guaranteed affiliate operating under a French bank license in London.

Lehman Brothers had 3,300 legal entities when it failed. Its main overseas affiliate was guaranteed here in the United States, and it had 130,000 outstanding swap transactions.

The lessons of modern finance are clear. If reform does not cover the far flung operations of U.S. enterprises, trades inevitably would just be booked in offshore branches or affiliates. If reform does not cover these far-flung operations, rather than reforming the financial system, we simply would be providing a significant loophole.

Benchmark Interest Rates

Five years ago, as the public now knows, multiple banks were pervasively rigging the world's most important benchmark interest rates.

The public trust has been violated through bad actors readily manipulating these benchmark interest rates.

I wish I could say that this won't happen again, but I can't.

As London Interbank Offered Rate (LIBOR) and Euro Interbank Offered Rate (Euribor) are not anchored in observable transactions, they are more akin to fiction than fact.

That's the fundamental challenge that the CFTC and law enforcement agencies around the globe have so dramatically revealed.

We've made progress addressing governance and conflicts of interest regarding such benchmarks. But this alone will not resolve the fundamental vulnerability of these benchmarks – the lack of transactions in the interbank market underlying them.

That is why the work of the Financial Stability Board to find replacements for LIBOR and to recommend a means to transition to such alternatives is so critical. The CFTC looks forward to continuing work with the international community on these much-needed reforms.

Customer Protection

Market events in the last five years highlighted the need to further ensure for the protection of customer funds. Segregation and the protection of customer funds is the core foundation of the futures and swaps markets.

The CFTC went through a two-year process with market participants – and six sets of finalized rules – to comprehensively reform the customer protection regime for futures and swaps.

Resources

One of the most remarkable things about the CFTC is that today, it's only five percent larger than it was 20 years ago.

Since then, though, this small, effective agency has taken on the job of overseeing the \$380 trillion swaps market, which is a dozen times the size of the futures market we have historically overseen. Further, the futures market itself has grown fivefold since the 1990s.

Due to the budget challenges in Washington, not only has the CFTC been shrinking, but we had to notify employees of administrative furloughs.

Though the agency has yet to secure necessary funding from Congress, I continue to have faith that one day the CFTC will be funded at levels aligned with its vastly expanded mission.

The Journey Ahead

Though the CFTC has completed nearly all the rules of the road for the swaps market, reform is an ongoing journey.

Just as our nation has come together on financial reform these last five years, our regulations will continuously need to evolve. We always need to be open to changes in the markets and how best to promote transparency, competition and protect the public.

The journey is not over in transitioning to a replacement for LIBOR or in adequately funding the CFTC.

I think that we're in very firm setting on clearing, data reporting, real-time reporting, and business conduct reforms – all of which have been implemented. There are likely to be further challenges, however, with regard to the appropriate level of pre-trade transparency on trading platforms, as well as the scope of the cross-border application of reform.

I couldn't be more proud of the dedicated group of public servants at the CFTC. I am honored to have served along with them during such a remarkable time in the history of the agency.

Our nation benefits from free market capitalism, but it's critical that we have common-sense rules of road to ensure that finance best serves the public at large.

Agency Financial Report

The CFTC places a strong emphasis on being an effective steward of its operating funds. I am pleased that for the ninth consecutive year, the Commission has received an unqualified opinion on its financial statements. For the seventh consecutive year, the auditors disclosed no material instances of noncompliance with laws and regulations. I can also report that the CFTC had no material internal control weaknesses and that the financial and performance data in this report are reliable and complete under the Office of Management and Budget (OMB) guidance.

A handwritten signature in black ink, appearing to read "G. Gensler", with a horizontal line underneath the name.

Gary Gensler
December 16, 2013