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COMMODITY FUTURES TRADING COMMISSION

Energy and Environmental Markets
Advisory Committee (EEMAC)
Meeting

9:34 a.m.

Tuesday, March 24, 2020

[VIA TELECONFERENCE]

1 CFTC COMMISSIONERS

2 Chairman Heath P. Tarbert

3 Commissioner Brian D. Quintenz

4 Commissioner Rostin Behnam

5 Commissioner Dawn DeBerry Stump

6 Commissioner Dan M. Berkovitz

7

8 EEMAC MEMBERS

9 Dena E. Wiggins, Chair

10 Natural Gas Supply Association

11

12 Rob Creamer

13 FIA Principal Traders Group

14

15 Trabue Bland

16 ICE Futures U.S.

17

18 Demetri Karousos

19 Nodal Exchange, LLC

20

21

22

EEMAC MEMBERS [CONTINUED]

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3 William F. McCoy

4 Morgan Stanley

5

6 Lopa Parikh

7 Edison Electric Institute

8

9 Jacqueline Roberts

10 Consumer Advocate Division of West Virginia

11

12 Tyson T. Slocum

13 Public Citizen

14 ASSOCIATE MEMBERS

15 Matthew Agen

16 American Gas Association

17

18 James C. Allison

19 JCA Advisory Services LLC

20

21

22

ASSOCIATE MEMBERS [CONTINUED]

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3 Lael E. Campbell
4 Exelon Generation Company
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6 Paul Cicio
7 Industrial Energy Consumers of America
8
9 Sean Cota
10 National Energy and Fuels Institute
11
12 Daniel Dunleavy
13 Ingevity Corporation
14
15 Erik Heinle
16 Office of the People's Counsel
17
18 Paul Hughes
19 Southern Company
20
21 Kaiser Malik
22 Calpine Corporation

ASSOCIATE MEMBERS [CONTINUED]

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3 Timothy McKone

4 Citigroup Energy Inc.

5

6 Robert G. Mork

7 National Association of State Utility Consumer

8 Advocates

9

10 Dr. John Parsons

11 Special Government Employee

12

13 Delia Patterson

14 American Public Power Association

15

16 Matthew J. Picardi

17 The Commercial Energy Working Group

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19 Michael Prokop

20 Deloitte and Touche, LLP

21

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ASSOCIATE MEMBERS [CONTINUED]

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Malinda Prudencio

The Energy Authority

Dr. Richard Sandor

Environmental Financial Products, LLC

Noha Sidhom

Energy Trading Institute

Russ Wasson

National Rural Electric Cooperative Association

A G E N D A

1		
2		Page
3	Call to Order	9
4		
5	Opening Statements:	
6	Commissioner Dan M. Berkovitz	10
7	Chairman Heath P. Tarbert	13
8	Commissioner Brian D. Quintenz	17
9	Commissioner Rostin Behnam	19
10	Commissioner Dawn D. Stump	23
11	Dena Wiggins EEMAC Chair	27
12		
13	Roll Call of EEMAC Members	29
14		
15	Market Intelligence Branch (Division of Market	
16	Oversight): Update on Recent Developments in	
17	the Financial and Energy Derivatives Markets	33
18	Mel Gunewardena, Chief Market Intelligence	
19	Officer, DMO MIB	33
20	Christopher Goodenow, Senior Market Analyst,	
21	DMO MIB	42
22	Michael Nouri, Market Analyst, DMO MIB	51

A G E N D A (CONTINUED)

1		
2		Page
3	Q&A	53
4		
5	Closing Statements:	
6	Commissioner Brian D. Quintenz	80
7	Commissioner Rostin Behnam	80
8	Commissioner Dawn D. Stump	81
9	Commissioner Dan M. Berkovitz	82
10		
11		
12	Adjournment	84
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		

P R O C E E D I N G S

(9:34 a.m.)

1
2
3 MS. KNAUFF: Good morning, welcome to the Energy
4 and Environmental Markets Advisory Committee. It's my
5 pleasure to call this meeting to order. This is the
6 third EEMAC meeting with Commissioner Berkovitz as the
7 sponsor of the committee and the first EMAC meeting of
8 2020.

9 In light of the global response to COVID-19, we
10 are holding today's meeting as a teleconference to
11 protect the safety of the agency's personnel, the EEMAC
12 Members and Associate Members and the public. To
13 ensure that today's meeting goes as smoothly as
14 possible, and the recording of the meeting is complete
15 and accurate, please keep your phone on mute until you
16 are called upon to participate. If a meeting
17 participant needs assistance during the call, please
18 dial star-zero for operator assistance.

19 EEMAC Member Dena Wiggins will serve as the
20 Chair of today's meeting.

21 Before we begin this morning's session, I'd like
22 to turn to Commissioner Berkovitz for his opening

1 remarks.

2 COMMISSIONER BERKOVITZ: Thank you Abigail.

3 Good morning, everyone and welcome to the Energy and
4 Environmental Markets Advisory Committee meeting. This
5 is a challenging time for our nation and financial
6 markets. I thank the Committee Members and Associate
7 Members for joining us today. I hope you are all safe.

8 Recognizing our committee members' attention to
9 current events, we have postponed our discussion on the
10 position limits rulemaking. Instead, members of the
11 CFTC's Division of Market Oversight will brief the
12 committee on the recent developments and volatility in
13 the derivatives markets. In times of market stress, it
14 is critical that our markets be transparent and that
15 participants have accurate and up-to-date information.

16 A reliable supply of energy is central to this
17 country's infrastructure and economy, both under normal
18 circumstances and at times of national emergency. We
19 need energy to continue to operate our industries and
20 facilities, manufacturer-needed supplies, transport
21 supplies and emergency personnel to where they are
22 needed, operate our communications infrastructure, and

1 heat and cool our homes, hospitals, and workplaces. I
2 would like to express my gratitude to our fellow
3 citizens in the energy industry, who are working to
4 provide these essential services to the American
5 people.

6 The CFTC remains focused on protecting the
7 integrity of the derivatives markets. In addition to
8 our own monitoring, we are in daily and often more
9 frequent communication with our exchanges, clearing
10 houses and intermediaries. We are committed to
11 ensuring that the derivative markets remain able to
12 fulfill their central purposes of price discovery and
13 risk management. We are also committed to maintaining
14 market participants' access to these markets while not
15 compromising market integrity.

16 To-date, derivatives markets have been
17 functioning effectively, but we are vigilant as
18 conditions evolve. The CFTC's Market Intelligence
19 Branch has been leading daily briefings over the past
20 few weeks to apprise Commissioners and staff of market
21 developments. During these briefings, the CFTC's
22 operating divisions share key data for the markets we

1 oversee and analyze potential areas of risk.

2 I thank CFTC staff, including our presenters
3 today, for working around the clock to keep pace with
4 these developments and for their dedication to this
5 agency and to the markets we regulate.

6 Presenting today will be three members of the
7 CFTC Market Intelligence Branch, Chief Market
8 Intelligence Officer, Mel Gunewardena, and Market
9 Analysts, Chris Goodenow and Mike Nouri. I would like
10 to welcome the Chairman and Commissioners who are
11 joining today's committee meeting. I'd like to express
12 my appreciation for the Chairman's leadership in
13 protecting the health and safety of all of us at the
14 CFTC and to each of the Commissioners for their hard
15 work and collaboration in meeting the challenges we
16 face.

17 Most of us at the CFTC are teleworking in order
18 to protect our staff and our fellow citizens. I'd like
19 to recognize our Office of Data and Technology for
20 enabling us to tell the work and for setting up this
21 meeting. I hope today's committee meeting will give
22 market participants and the public a glimpse into how

1 the Commission is adapting to the circumstances and
2 continuing to accomplish its mission.

3 I would also like to thank a few people who have
4 made this meeting possible, including Dena Wiggins,
5 President and CEO of the Natural Gas Supply Association
6 and Chair of the EEMAC; Abigail Knauff, the EEMAC's
7 Secretary; Lucy Hynes of my staff; and Michelle Ghim
8 from the Office of General Counsel.

9 Finally, we intend to reschedule the position
10 limits meeting to early May. We will host that meeting
11 remotely if necessary, so please stay tuned for further
12 details from Abigail regarding the format and schedule
13 of that meeting. Thank you.

14 MS. KNAUFF: Thank you, Commissioner Berkovitz.
15 I now recognize Chairman Tarbert to give his opening
16 remarks.

17 CHAIRMAN TARBERT: Thank you very much,
18 everyone. And first, let me also recognize all the
19 hard work in the face of unprecedented economic and
20 personal difficulties around the country. Thanks to
21 Commissioner Berkovitz for sponsoring this committee.
22 Special thanks to you, Dena, for chairing the EEMAC.

1 And also to you Abigail for being the Secretary of the
2 Committee.

3 I also want to say thank you to everyone on the
4 call today for your insights and assistance to this
5 agency. Each of us recognizes that we have
6 responsibilities to help the American economy continue,
7 so that we can overcome the challenges that nation
8 currently faces. The firms that use our markets are
9 driving the world economy and will be vital to
10 jumpstart our economic recovery. Our financial
11 markets, especially our energy markets, are
12 experiencing unprecedented turbulence.

13 But I'm happy to report that these markets are
14 still functioning. And that's thanks to all the
15 dedicated men and women throughout this industry. Our
16 systems are functioning, margin calls are being for all
17 major firms, and sellers are able to find buyers. Our
18 energy sector has been hit particularly hard in the
19 past month, and not just by coronavirus, but also by
20 the standoff between Saudi Arabia and Russia on oil
21 production targets.

22 This double dose of volatility reinforces the

1 importance of the derivatives markets, which have
2 allowed participants on every side of this market to
3 manage their price risk.

4 We at the CFTC have been monitoring these market
5 developments. As you know today we're going to hear
6 from the Market Intelligence Branch of DMO and the many
7 things they've been tracking. A special thanks to all
8 the staff within the agency who have been tracking
9 market developments so that we understand how our
10 markets are functioning.

11 This group has been giving detailed daily
12 briefings to the Commission to keep us abreast of
13 potential issues so we can better coordinate with other
14 regulators and with those of you in the market. We've
15 also been making sure that our regulations don't
16 unintentionally exacerbate problems in the market.
17 Where appropriate, we're granting targeted regulatory
18 relief.

19 Last week, we issued a series of no-action
20 letters to let our registrants comply with social
21 distancing requirements. And on Friday, we issued
22 temporary relief to a bank from registration as a major

1 swap participant. This relief will help ensure that
2 the bank is able to maintain its lending to small and
3 medium-sized oil and gas producers without triggering
4 registration requirements that we hadn't intended to
5 capture it.

6 While we're laser-focused on the turbulence in
7 our markets, we can't let everything else lie fallow.
8 This too shall pass. And I'm reminded by the fact that
9 there are many Americans out there who are in the
10 private sector, who unfortunately are losing their jobs
11 and putting up with great economic distress. We at the
12 CFTC are lucky in the sense that we are federal
13 employees. But we want you to know that we're going to
14 continue the business of the Commission.

15 Commissioner Berkovitz stated that we're going
16 to -- we will have the position limits meeting in early
17 May. And I would remind everybody in relation to our
18 position limits proposal, our comments due-date is
19 about five weeks from now on April 29th. So while we
20 can't have meetings in-person with Commissioners or
21 staff, we highly recommend that from now, up until that
22 date and the EEMAC meeting to talk about position

1 limits, members of the public requests phone
2 conferences.

3 Again, this has changed the way the Commission
4 operates, but the agency is still very much open for
5 business. So with that, I'm looking forward to today's
6 presentations on the state of the market and to all of
7 our staff to everyone on the call, and to all
8 Americans. I hope you and your families stay safe and
9 healthy during these difficult times. Thank you.

10 MS. KNAUFF: Thank you, Chairman Tarbert. I now
11 recognize Commissioner Quintenz to give his opening
12 remarks.

13 COMMISSIONER QUINTENZ: Thank you very much.
14 Let me first thank Commissioner Berkovitz for holding
15 today's meeting. And Dena and Abigail and Lucy for all
16 the hard work in putting this together under different
17 circumstances than we would normally like. And let me
18 also thank the Chairman for his leadership during this
19 time, as well as all of the Commissioners and the staff
20 for being so on top of the markets and events and being
21 willing to look at what we need to do appropriately to
22 provide relief or to keep markets functioning.

1 I have a little bit of a different message this
2 morning. I wanted to say you know, there's the
3 unequivocally there is no good time to go through
4 something like this. But in my view, and it's only my
5 opinion, there is never been a better time from a
6 resiliency and a preparedness, and a capability
7 perspective, then right now from all of the
8 connectivity options that are powered by our
9 entrepreneurial tech ingenuity, that allow face-to-face
10 connections across businesses and families and markets
11 and governments.

12 To the productivity and efficiency of our
13 agriculture, our livestock, and our energy producers to
14 provide us with food and power to the logistical
15 readiness of our supply chain management, to
16 continuously stock shelves with necessary supplies. To
17 the expertise and flexibility of our manufacturing
18 sector, that can transition from their normal
19 businesses to making critically needed healthcare
20 supplies in a moment's notice. To the implementation
21 of strong business and industry-wide continuity plans,
22 fueled by reactions to 9/11. To the unquestionable

1 strength of our banks and our financial system. From a
2 capital and liquidity perspective to keep extending
3 credit and absorb shocks, to the integrity and
4 visibility of our derivatives markets for risk
5 management and critical hedging needs.

6 I think we come to this moment of crisis in a
7 time of great strength and preparedness and
8 capabilities. And it's time to execute. And that's
9 exactly what I've seen from this agency and the
10 derivative markets community as a whole.

11 Let me thank MIB, all of our divisions, and ODT
12 for connecting us. We have the resources to do what we
13 need to do during this critical time and to continue or
14 normal business as the Chairman has laid out. Thanks
15 again to Commissioner Berkovitz. I'm very much looking
16 forward to the discussion today.

17 MS. KNAUFF: Thank you, Commissioner Quintenz, I
18 now recognize Commissioner Behnam to give his opening
19 remarks.

20 COMMISSIONER BEHNAM: Thank you Abigail. Good
21 morning, everyone. First off want to thank
22 Commissioner Berkovitz as sponsor of the committee

1 holding this meeting, Dena, Abigail, and Lucy, of
2 course, for all of your hard work orchestrating this in
3 a very tough time. I want to thank MIB and all the
4 Divisions at the CFTC. As we've heard from the
5 Commissioners and the Chairman, a lot of work has been
6 going on to sort of mitigate some of the risks and
7 manage some of the challenges that we've seen in the
8 markets in the past month and all the credit goes to
9 them.

10 I want to, of course, recognize the Chairman and
11 my fellow Commissioners for their leadership and I
12 think together collectively wading through these
13 challenges together and trying to be responsive to the
14 markets on a timely basis. And I also want to
15 recognize all the EEMAC members who are on the call
16 today. Some who I've known for many years, and I hope
17 all of you and your families are doing well and are
18 safe, as we sort of all, again, collectively sort of
19 endure through this really challenging and difficult
20 time.

21 As a matter of today's meeting, and going
22 forward, I think, you know, CFTC has been doing a great

1 job but I don't want to reiterate or repeat the things
2 that have been said already. But we are certainly
3 prepared. We have the best folks in the world in terms
4 of managing markets and making sure that our market
5 structure remains resilient and steadfast through these
6 very difficult times. And as we continue to engage
7 with market participants, which we have for the past
8 few weeks, as demonstrated by some of these relief
9 notices that have gone out in the past couple of weeks,
10 and I think you'll see them continue to be issued in
11 the near future.

12 I think it's important that we be mindful of
13 what everyone is going through at the time, whether
14 it's at home or at work, schools canceled, remote
15 teleworking, and whatnot, we have to be mindful of the
16 challenges that folks are facing. I think as an
17 agency, we need to continue to focus on the critical
18 needs of the market right now. Every day seems to
19 bring a new challenge, new unknowns, and I think we
20 need to allocate all our resources to sort of critical
21 market structure resiliency in some of these matters
22 that we could never have predicted, but have to sort of

1 step up and address in the short-term, in the midterm,
2 in the long-term, as we sort of work towards recovery,
3 both economic and social, getting out of this very,
4 very difficult time.

5 So I would certainly encourage folks to engage
6 with the CFTC to the extent it's necessary. I know our
7 doors are open, as the Chairman said, but I would hope
8 as an agency, we continue to focus solely on these
9 matters in the short-term, particularly in these couple
10 of weeks, where I think with respect to COVID-19 and
11 the challenges we're facing in the business place and
12 at home, we have to be very mindful of the challenges
13 folks are facing and we have to deal with them in the
14 short-term basis, and I think when this passes and it
15 will pass and we will get through it together, then we
16 can continue the business of the agency as we planned
17 and all hope to do in regular routine.

18 So we're here, really appreciate, again,
19 Commissioner Berkovitz for this, looking forward to the
20 call. And thanks again to all CFTC staff for their
21 great work during very, very challenging times.
22 Thanks. Thanks, Abigail.

1 MS. KNAUFF: Thank you, Commissioner Behnam, I
2 now recognize Commissioner Stump to give her opening
3 remarks.

4 COMMISSIONER STUMP: Thank you, Abigail, and
5 thank you for pulling this meeting together in such
6 unprecedented circumstances. I wanted to first
7 acknowledge -- there are so many people to thank, but I
8 wanted to acknowledge the way in which the five
9 Commissioners work together. I think it's somewhat
10 unique and while it's not unprecedented that we would
11 be very coordinated in a time of unsettled and
12 emotional distress by some, I do think that the way in
13 which the five of us interact is helpful in this
14 situation. And I want to thank all four of the other
15 Commissioners.

16 I've spoken to many of you over the past few
17 days. And I think the way in which we have worked
18 together and put aside our differences to conduct the
19 business of the agency is something that I very much
20 appreciate and I'm very proud to work at an agency
21 where we're able to be nimble enough to do so.

22 Today I wanted to focus my comments on the

1 mission of the CFTC, which many may know is to promote
2 integrity, resilience, and vibrancy of the U.S.
3 derivatives markets through sound regulation. And I
4 wanted to focus today on resilience, not just as it
5 relates to regulating the derivatives markets, but more
6 generally, how it was demonstrated and revered during
7 my upbringing in Texas and how those lessons resonate
8 today.

9 I grew up in an area that was almost exclusively
10 dependent upon production agriculture and a short
11 distance from the Permian Basin, the state's oil
12 producing region. Both of those industries are
13 critical to the economy of Texas and in fact, the
14 entire nation. But during my childhood in the 1980s,
15 the agriculture and energy sectors were in a state of
16 turmoil due to depressed market conditions and credit
17 constraints. While these were extremely difficult
18 times, I can attest that the dedication to produce
19 energy and food was never lost, nor was the respect for
20 innovation and markets.

21 In fact, the resilience of these industries is
22 rooted in the trust that if they do their part to feed,

1 clothe, and power the nation, innovators will develop
2 technologies to improve their efficiencies, and markets
3 will operate transparently to help them better manage
4 their risk.

5 My somewhat distant childhood memories now serve
6 as a vivid reminder that our resilience is dependent
7 upon a shared commitment to do our part. In today's
8 environment, public health is everyone's priority. As
9 such food delivery, expedited grocery restocking,
10 virtual classrooms, school meal distribution, and
11 expanded hotspot locations in areas without internet
12 service, all promote stability and social distancing,
13 none of which would be possible without reliable energy
14 sources.

15 As to the CFTC's part in all of this, we have an
16 obligation to preserve the integrity of the market
17 tools for those who produce, distribute, and consume
18 energy during these volatile times. They need all
19 available tools to manage their risk and reliably
20 discover prices on transparent market venues.

21 I am grateful for all of those here at the CFTC
22 who have been carrying out the agency's

1 responsibilities during this difficult time, especially
2 the team that will present today's discussion. This
3 group has worked day and night over the past few weeks.

4 Price discovery is sometimes a grim job, but it
5 is nonetheless our task to fulfill. In July of 2008, I
6 distinctly recall, West Texas Intermediate crude prices
7 soaring to \$147 per barrel. Last week, the same market
8 touched \$20 per barrel. In each of these
9 circumstances, we acknowledge that there are real world
10 implications for consumers and producers, and we must
11 ensure that the price is transparent regardless of its
12 favorability. Only then are these markets able to
13 serve their risk management function.

14 We also take seriously our obligation to ensure
15 that those who may attempt to manipulate the markets
16 are held accountable. Over the past few weeks, I've
17 been in touch with both in various commodity
18 businesses. Like the entire nation, they are worried
19 about the public health situation. Like many others,
20 they are concerned about the sustainability of their
21 livelihood. The commodity production and distribution
22 business is inherently risky. And we as a nation are

1 grateful to those who are willing to take on such
2 endeavors in order that we might eat and power our
3 modern lives.

4 Today we are reminded that resilience is
5 everyone shared responsibility, and at the CFTC, it's
6 part of our mission. With that, I will turn it back to
7 Abigail. And again, thanks to everyone for your
8 willingness to participate today.

9 MS. KNAUFF: Thank you, Commissioner Stump. I'm
10 now I'm going to turn the meeting over to the EEMAC
11 Chair, Dena Wiggins.

12 EEMAC CHAIR WIGGINS: Thank you Abigail,
13 Commissioner Berkovitz, Mr. Chairman and all the CFTC
14 Commissioners, I am honored to be a Member of the EEMAC
15 and to continue serving as the Chair of the EEMAC.
16 This committee serves as an important vehicle,
17 particularly in times like these to discuss matters of
18 concern to exchanges, trading firms, end-users, energy
19 producers, and regulators within our energy and
20 environmental markets, as well as the Commission's
21 regulation of these markets.

22 A well-informed regulatory environment that

1 understands and fosters open, transparent, competitive,
2 and financially sound energy markets is absolutely
3 critical to our energy and environmental derivatives
4 markets.

5 It is also critical to the hedgers and consumers
6 that rely on our markets to power our homes and
7 businesses, fuel our transportation, and generate jobs
8 and economic growth. As Chair, I look forward to
9 facilitating the discussion of Associate Members'
10 perspectives to the EEMAC and working with the EEMAC
11 Members to provide the Commission with feedback and
12 recommendations that assist the agency in its oversight
13 of our markets.

14 To ensure that today's discussion is consistent
15 with the EEMAC Charter, which prohibits Associate
16 Members from providing reports and recommendations
17 directly to the Commission. We will first take
18 questions and comments from the EEMAC Associate Members
19 after the panelists have made their presentations and
20 prepared remarks on the respective panel. We will then
21 turn to the EEMAC Members for their questions and
22 comments on the panelists' presentations, prepared

1 remarks, and any feedback provided by the Associate
2 Members.

3 Before we begin our first panel, we would like
4 to do a roll call of the Members and Associate Members
5 on the phone so that we have your attendance on the
6 record.

7 Abigail, could you lead the roll call please.

8 MS. KNAUFF: Thank you, Dena. EEMAC Members
9 after I say your name, please indicate that you are
10 present.

11 Rob Creamer?

12 (No response.)

13 MS. KNAUFF: We will continue. Trabue Bland?

14 MR. BLAND: Yes.

15 MS. KNAUFF: Trabue Bland is present?

16 MR. BLAND: I'm present, yes.

17 MS. KNAUFF: Demetri Karousos?

18 (No response.)

19 MS. KNAUFF: Bill McCoy?

20 MR. McCOY: I am present.

21 MS. KNAUFF: Lopa Parikh?

22 MS. PARIKH: Present.

1 MS. KNAUFF: Jackie Roberts?

2 (No response.)

3 MS. KNAUFF: Tyson Slocum?

4 MR. SLOCUM: Yes, I'm here.

5 MS. KNAUFF: Thank you. Just to circle back, do
6 we have Rob Creamer on the phone?

7 (No response.)

8 MS. KNAUFF: Demetri Karousos?

9 (No response.)

10 MS. KNAUFF: Okay, I'm going to move to the
11 Associate Members. After I say your name, please
12 indicate that you are present.

13 Matthew Agen?

14 MR. AGEN: Present.

15 MS. KNAUFF: Thank you. Jim Allison?

16 MR. ALLISON: Present.

17 MS. KNAUFF: Thank you. Lael Campbell?

18 MR. CAMPBELL: Present.

19 MS. KNAUFF: Thank you. Paul Cicio?

20 MR. CICIO: Present.

21 MS. KNAUFF: Thank you. Sean Cota?

22 MR. COTA: Present.

1 MS. KNAUFF: Thank you. Daniel Dunleavy?
2 MR. DUNLEAVY: Present.
3 MS. KNAUFF: Thank you. Erik Heinle?
4 (No response.)
5 MS. KNAUFF: Paul Hughes?
6 MR. HUGHES: Present.
7 MS. KNAUFF: Thank you. Kaiser Malik?
8 MR. MALIK: Present.
9 MS. KNAUFF: Thank you. Timothy McKone?
10 MR. MCKONE: Present.
11 MS. KNAUFF: Thank you. Robert Mork?
12 MR. MORK: Present.
13 MS. KNAUFF: Thank you. Dr. Parsons?
14 (No response.)
15 MS. KNAUFF: Delia Patterson?
16 MS. PATTERSON: Present.
17 MS. KNAUFF: Matthew Picardi?
18 MR. PICARDI: Present.
19 MS. KNAUFF: Michael Prokop?
20 (No response.)
21 MS. KNAUFF: Melinda Prudencio?
22 MS. PRUDENCIO: Present.

1 MS. KNAUFF: Dr. Sandor?

2 DR. SANDOR: Present.

3 MS. KNAUFF: Thank you. And Noha Sidhom?

4 MS. SIDHOM: Present.

5 MS. KNAUFF: Thank you. And just one last time,

6 Erik Heinle?

7 (No response.)

8 MS. KNAUFF: And Dr. Parsons?

9 (No response.)

10 MR. WASSON: Abigail, this is Russell Wasson, I
11 didn't hear you call my name.

12 MS. KNAUFF: My apologies, thank you.

13 Similar to other EEMAC meetings Dena will
14 recognize the Associate Members and Members that wish
15 to ask the question or share comments following the
16 Market Intelligence Branch's presentation. If you'd
17 like Dena to recognize you please use the WebEx chat
18 icon at the bottom of the screen. Then select the host
19 and presenter option within the dropdown menu, indicate
20 you have a question, and press enter. Dena will
21 recognize those Associate Members and then Members who
22 wish to speak. Once recognized, please state your name

1 and firm prior to your question or comment. Please
2 remember to place your phone back on mute once you have
3 spoken.

4 I will now turn the meeting over to Dena.

5 EEMAC CHAIR WIGGINS: Thank you Abigail. Today
6 the Market Intelligence Branch within the Division of
7 Market Oversight will present an update on recent
8 developments within the financial and energy
9 derivatives markets.

10 Mel, could you please begin?

11 MR. GUNewardENA: Good morning. Good morning
12 Chairman. Good morning Commissioner Berkowitz,
13 Chairman Tarbert, Commissioner Quintenz, Commissioner
14 Benham, Commissioner Stump, the Members and Associate
15 Members of this committee. My name is Mel Gunewardena,
16 I'm the Chief Marketing Intelligence Officer and Deputy
17 Director of the Division of Market Oversight.

18 Thank you for inviting me and my team to this
19 public meeting of the Energy Environmental Markets
20 Advisory Committee, and giving us the opportunity to
21 share some of our information, observation, and
22 insights on the recent developments in the operation of

1 the financial markets with the focus on the energy
2 derivatives markets. Our work is only a small part of
3 the enormous work that is being done across the agency
4 under Chairman Tarbert's leadership that ensures the
5 integrity, fairness, price discovery, and resilience of
6 derivatives markets.

7 I'm joined today by my colleagues, Chris
8 Goodenow and Mike Nouri. Chris is the Senior Market
9 Analyst responsible for energy derivatives. And Mike
10 is a Market Analyst responsible for credit derivatives.
11 Both are in the Market Intelligence Branch, which is
12 part of the Division of Market Oversight.

13 Let me start by saying that these views
14 expressed today represents those of staff in MIB, and
15 do not necessarily reflect the views of the Commodity
16 Futures Trading Commission, any of the Commissioners,
17 Division of Market Oversight, or other staff at the
18 Commission. Also consistent with Section 8(a) of the
19 CEA, this presentation does not contain data or
20 information that would separately disclose the business
21 transactions of market positions of any person and
22 trade secrets or names of any customers.

1 By way of background, MIB, as we call it, was
2 set up in 2017 to strengthen and lead the Commission's
3 market monitoring functions across financial derivative
4 markets. Our work is to support the Commission's
5 mission to promote integrity, resilience, and vibrancy
6 in the derivative markets by monitoring the health and
7 structure of U.S. futures, options, and OTC swaps
8 markets. Analysis is geared to highlight trends,
9 emerging threats, potential structural or systemic risk
10 to the Chairman and the Commissioners and also to the
11 broad Commission.

12

13 We do our work by monitoring various metrics and
14 trends such as the ones listed on this slide, including
15 volume activity, liquidity, significant participant
16 positioning, term structures in our contract markets,
17 relative value or convergence of cash and futures
18 markets, news, information, and fundamental analysis.

19 As you can see from this slide, which may be
20 hard to read, we cover over 100 different commodities,
21 indices, and contracts spanning across dairy markets,
22 such as milk and cheese futures; agriculture contracts,

1 such as grains and beans; precious metals, base metals;
2 the very important energy markets complex which
3 includes crude, gasoline, natural gas, [and]
4 electricity to financial markets that includes indices
5 across equities, credit, interest rates, cleared and
6 uncleared swaps, foreign exchange forwards, emerging
7 market non-deliverable forwards, OTC options, and
8 exotics.

9 The U.S. derivative markets are approximately
10 \$350 trillion to \$400 trillion in notional value based
11 on a swap equivalent. The open interest in futures on
12 one side, that means the long interest of the short
13 interest, is between \$75 to \$100 hundred trillion,
14 where the option values are not delta adjusted to be
15 consistent with the swaps reporting. Using the BIS
16 swap outstanding notional values and our own data, we
17 have approximately about 200 trillion of these
18 contracts are either originated or exist in the U.S.
19 markets, that derives the value of around \$350 to \$400
20 trillion overall.

21 To provide some context in 2008, the futures
22 open interest on one side was about \$30 trillion, and

1 today it's between \$75 to \$100 trillion. We've seen
2 similar growth in the OTC derivative markets.

3 To give you a sense of market volumes, our trade
4 activity in recent times have reached somewhere in the
5 region of 55 to 60 million contracts a day on the
6 futures side. On average, historically, the contract
7 while it was somewhere in the region of 30 million
8 contracts a day.

9 So as we get into kind of more detail, this
10 slide identifies the major equity market declines that
11 we've observed over the past 100 years, including the
12 1929 Wall Street Crash, the Great Depression, the Flash
13 Crash in 1962, the Long-term Capital Crisis in 1998,
14 which was also included with the Asia Market Crisis,
15 and some of the Latin America and Russia Debt Crisis;
16 the Dot-Com Bubble in 2000, 9/11, and the Great
17 Financial Crisis in 2007. As you can see that these
18 are values from the highest point down to the lowest
19 point to the highest point and today we've seen some
20 improvement and adjustment in the equities markets at
21 the open.

22 This slide identifies the market volatility, as

1 represented in the crude, in the VIX contract, which
2 touched around 80 last week. To put it in context, the
3 week's average about 15 over the past year and right
4 now it has moderated a little bit and it's in the
5 region of around 55.

6 The COVID-19 disruptions to the financial
7 markets are compounded, as you know, with the OPEC+
8 disagreements that became public a few hours prior to
9 the markets opening on March 9. On this day, almost
10 all U.S. Treasury yields from the 90-day T-bills all
11 the way to 30-year Treasury bonds traded below 100
12 basis points for the first time in our history.

13 We have seen whipsaw price action subsequently,
14 including one of the largest percentage declines in
15 history, as well as one of the steepest climbs within
16 seven days. Over this week, we have seen U.S. yields
17 once again approaching the low-end of this scale.

18 Just switching to more on the currency side, the
19 U.S. dollar cross-currency basis, which is really the
20 swap spread across currency and U.S. dollars, indicate
21 that the demand has widened considerably. The Fed
22 actions last week, and earlier this week, saw some

1 abatement in the overall spreads that are typically
2 much narrower than the spreads that you see here. It
3 also represents the enormous interest in dollars, both
4 domestically as well as internationally.

5 Just to spend a few minutes on liquidity and
6 specifically on the futures markets, given the volumes
7 and volatility, all of the exchange traded contracts
8 have performed very well. The top-of-book depth has
9 been reasonable and the bid-offer spreads that cover
10 book have kind of widened slightly but it is consistent
11 with kind of market conditions.

12 There has been a slight slippage of the limit
13 orders and some slippage in stop-loss order fills that
14 are not extreme and we are monitoring that. None of
15 this is inconsistent with kind of the enormous amount
16 of activity that is taking place in the markets and
17 also some of the volatility in price.

18 In OTC products, the OTC swap spreads have
19 widened a little, probably about 50 percent and the
20 liquidity is much lower, consistent again with market
21 activities. In the foreign exchange swaps, we have
22 seen both the tom-next, which is kind of the immediate

1 short-term role to spot value by foreign exchange
2 position holders and forward swaps, has also widened
3 out and have seen some spreads and liquidity drops.

4 There's been heavy activity in the credit
5 derivatives swaps market, as long bondholders and
6 hedgers have been actively been risk managing. Spreads
7 have widened in more of the high-yield energy
8 transport, hotels, resorts, and leisure industries as
9 you would expect in these market conditions.

10 We also look at the various market halts that
11 take place as an indication of price spikes and
12 liquidity. These are halts that are operated by
13 various exchanges in managing price action and
14 maintaining fairness in our markets. Although we've
15 seen an increase in some of these, particularly last
16 week, where there has been high volatility, it is
17 consistent with kind of some of the market volatility.
18 As you know, we've had four market-wide halts, in
19 equity and equity indices. There have been various
20 circuit breaks across various contracts including crude
21 and treasuries. And we've had many velocity logic
22 triggers, which is what this slide shows, in various

1 markets including metals, crude and in interest rates.

2 Now let's focus more narrowly on the crude
3 markets. The three months implied volatility in crude
4 markets are at the highest level in the past 20 years,
5 the COVID-19 impact of crude markets has been
6 compounded by the Russian and Saudi Arabian standoff
7 that has increased market volatility well-above the
8 levels observed during the Financial Crisis,
9 hurricanes, previous disruptions to supply side,
10 production cuts, and even sanctions.

11 On March 9, the moves in prices in this generic
12 WTI crude contract shows that it's the largest single
13 drop in percentage terms since the Gulf War in 1991.
14 And as you can see from this, we have on unprecedented
15 price volatility, the green shows days when we've been
16 up, the red shows prices when we've dropped. And as
17 you can see, at the beginning of the month, we had a
18 price range of around \$45, which dropped to a price
19 range of \$22.50 dollars recently at the end of last
20 week. This is kind of unprecedented.

21 At this point to get deeper into some of the
22 energy contracts, I'm going to hand over to my

1 colleague, Chris Goodenow and he will focus on energy
2 markets.

3 MR. GOODENOW: Thank you Mel. As you can see on
4 the slide here, which is looking at the global demand
5 forecast for 2020, as expressed by the International
6 Energy Agency, with the rapid spread of COVID-19 around
7 the globe, global demand growth forecasts for crude in
8 2020 have obviously been revised sharply down, with IEA
9 calling for the first year-over-year decline in demand
10 growth since the financial crisis. These figures were
11 published earlier this month. Since the IEA report,
12 we've seen a number of consultancies and investment
13 banks revise their demand forecasts down, calling for
14 even sharper declines, some saying possibly as much as
15 10 percent.

16 If we turn to the next slide, what we've got
17 here again, using the IEA data is just a comparison of
18 total supply versus total demand globally, on a
19 quarter-by-quarter basis. And as you can see, in the
20 2020 estimates, there's a huge decline in demand in
21 2020 in the first quarter, which is largely being
22 attributed to China. And they do project demand to

1 rebound across time, but even then, you can see from
2 this graph that the total amount of supply in the
3 market is going to dwarf demand, at least through the
4 first half of the year.

5 One thing that I would like to point out is that
6 these numbers do not take into account any changes in
7 production from OPEC+ participants coming out of their
8 failure to reach a production cut agreement. So right
9 now based on the last IEA estimates, we're looking at a
10 supply overhang of about 2.9 million barrels per day in
11 the second quarter of 2020.

12 And as I'm sure everyone's aware, with Saudi
13 Arabia and the UAE and Russia talking about increasing
14 production, as soon as April 1, that number could grow
15 to be as much as 7.1 million barrels per day of a
16 supply overhang. Again, assuming that everybody
17 follows through on the numbers that they put out in the
18 media.

19 So just to sort of assess where things are at:
20 in the near term, the Russia-Saudi Arabia standoff does
21 add a tremendous degree of uncertainty to a market
22 that's already experiencing significant demand

1 destruction due to COVID-19. And while the Russians
2 and the Saudis do have some of the lowest production
3 costs in the world, both of these countries do rely to
4 some degree on export revenues in order to balance
5 their country's balance sheets.

6 There are some key differences in there and
7 unlike Saudi Arabia, Russian currency floats freely
8 against the U.S. dollar, and in the last couple of
9 weeks, the Russian ruble is down more than 15 percent
10 against the U.S. dollar, which means that since oil is
11 priced in dollars, costs are falling significantly for
12 the Russians over the past month, whereas the Saudis
13 who operate on a fixed peg are still looking at the
14 same cost structure.

15 On the other hand, if you stop to consider U.S.
16 producers in the U.S. oil market, while U.S. producers
17 do have a higher breakeven cost then than the Russians
18 or the Saudis, U.S. firms make their production
19 decisions based on corporate well-being. And one of
20 the concerns to keep in mind moving forward is the
21 current stresses that these companies face if there's
22 any price appreciation in the near-term, this could

1 prompt some us producers to try to generate more crude
2 just to generate some free cash flow to either service
3 debt or minimize losses and that could further
4 exacerbate the supply glut.

5 Turning to gasoline markets, what we wanted to
6 talk about here was that much like crude markets
7 themselves, the drop in crude prices and the increasing
8 use of shelter-in-place policies throughout the U.S.,
9 have driven gasoline prices down substantially. In
10 fact, they hit an all-time low with yesterday's
11 settlement. And as a result of the steep decline in
12 gasoline prices, the crack spread on gasoline is now
13 negative, which effectively means that if you were just
14 turning oil into gasoline, you would be losing money on
15 every barrel of oil that you turned into gasoline.

16 And what we wanted to show here is, if you go
17 back to the start of the month, and you look at the
18 term structure on gasoline, the April, May, and June
19 contracts, we're all sitting at about 25 cent per
20 gallon premium to December, and now, prices through
21 Friday, December is actually sitting at -- depending on
22 which of the contracts you're looking at some are

1 between a 17 to about a 10 cent premium over summer
2 grade gasoline.

3 So there's some severe demand destruction built
4 into that market and there's not projected to be any
5 significant price appreciation in gasoline until the
6 end of the year.

7 On this next slide, I'd like to briefly
8 illustrate a potential issue for U.S. crude production
9 in the near-term. This slide uses data from the EIA's
10 drilling productivity report and it takes a look at
11 legacy oil well production in a number of basins that
12 do have a heavy amount of tight oil participation. And
13 according to EIA's estimates, legacy oil wells, which
14 are wells that are currently in operation, are
15 producing roughly 600,000 fewer barrels per day than
16 they were at their peak. And while this data doesn't
17 directly translate into the decline rate on a well, it
18 does illustrate the point that in this low price
19 environment as companies sort of scale back on
20 production, we could see overall U.S. crude production
21 numbers decline throughout the year.

22 And some news that came out this morning for

1 those who may not be aware, a major oil company has cut
2 their CapEx expenditure by 20 percent for the remainder
3 of 2020. And they're specifically targeting half of
4 that reduction in Permian Basin operations.

5 And then finally, to turn a little bit towards
6 natural gas, I'd like to take a moment to discuss these
7 markets. And while we've seen increased volatility in
8 natural gas futures prices as COVID-19 spreads and as
9 all markets are sort of shaken by the advancing of the
10 virus. I would like to point out that even though
11 natural gas volatility has doubled in the past two
12 months, it's not as volatile as we've seen in past
13 weather events and this may speak somewhat to the fact
14 that largely the U.S. natural gas market, despite our
15 increases in LNG exports, it's largely still a domestic
16 market.

17 I would like to point out that the U.S. remains
18 well-supplied in natural gas with the total natural gas
19 stocks in the U.S. about 76 percent of all of the 2019
20 levels at this time, according to EIA data that came
21 out last week. And one thing to keep in mind moving
22 forward is that as more U.S. states do start to close

1 non-essential businesses, we could see reductions in
2 commercial and industrial uses of natural gas.

3 And sort of looking at with respect to the tight
4 oil information that we just sort of discussed, one of
5 the things to consider there is that projected declines
6 in tight oil production would have the ancillary effect
7 of reducing the amount of associated gas and that sort
8 of thinking is reflected a bit in both the Waha and
9 Permian Basis indices, which have gone from negative to
10 positive in the last month.

11 And so just to sort of illustrate that, in the
12 past month, the Waha Basis has gone from minus-\$2.10 to
13 about minus-\$1.10. So, if natural gas is trading at
14 \$1.60, the Waha Basis would actually pay out 50 cents,
15 whereas at the start of the month, there would have
16 been a negative basis.

17 MR. GUNewardena: Thank you Chris.

18 MIB also tracks the ETF and ETN markets as these
19 directly relate to our derivative markets. Asset
20 managers, as you know, may hedge their requirements or
21 exposure directly or through intermediaries such as
22 banks, and adjust their risk exposure in both futures

1 and swap markets.

2 Foreign unleveraged ETFs as AUM grows or as
3 assets under management grows, the asset managers will
4 use the futures market as swap markets for their
5 desired exposure for risk management requirements. For
6 leveraged ETFs, the asset manager will estimate the
7 leverage exposure and hedge in these markets. The
8 growth of the ETF market since the last financial
9 crisis is fairly large, and even as we see some
10 reduction in the assets under management, the absolute
11 over positions are fairly significant in relation to
12 futures opening terms.

13 In particularly under these difficult market
14 conditions, those ETFs and ETNs that employ leverage in
15 their funds may exercise some of the optionality that
16 is embedded in them that provides the right to the
17 asset manager to accelerate redemptions if significant
18 price declines occur. As energy prices have declined
19 significantly, this optionality to accelerate may add
20 to some of the selling pressures in futures markets.

21 This slide shows the expanding spreads in the
22 CDX High Yield Index that is broadly traded with over

1 100 reference entities. A number of these reference
2 entities and reference obligations, which are the bonds
3 issued by those entities are priced as an index here,
4 you can see that the spreads in the past month have
5 widened from around 300 basis points to around 850
6 basis points in the high yield and the blue column
7 which shows that the investment grades have widened
8 from around 50 basis points to about 125 basis points
9 over this last month.

10 So, what we did here was just kind of take a
11 look at whether underlying reference entities are
12 trading. And as we look at the underlying reference
13 entities, we noticed that many of the energy, airline
14 travel, and leisure industries have a higher spread to
15 that of the current market spread. Whereas, some of
16 the other -- the diversification index, allows some of
17 the other types of industries to be lower than the
18 actual spread.

19 We've also noted that many of the energy
20 companies that are above this slide also include six
21 out of the 10 that are not on this slide, which is
22 above the 2,500 spread that is here.

1 With that, I'm going to hand it over to Mike to
2 kind of delve down a little bit more into the corporate
3 bond area and into some of the underlying leverage
4 assets that are related to the energy companies.

5 MR. NOURI: Thank you Mel.

6 The last several years have been favorable to
7 high yield bond issuers in terms of low yields and cost
8 of funding, which has help support the high yield bond
9 market's rapid growth over the years to over \$2.5
10 trillion by 2017, as illustrated here in the chart.
11 And as Mel and Chris both highlighted, the energy
12 industry, which has been significantly impacted by the
13 recent downturn, has made up a growing proportion of
14 the index over the years as also illustrated on the
15 chart here.

16 Moving to the next slide.

17 In a similar fashion, the U.S. leveraged loan
18 market has also rapidly grown and exceeds one trillion
19 outstanding. The current environment has made a
20 noticeable impact on the leveraged loan markets, as
21 illustrated here by the chart reflecting the recent
22 significant downward price trend of the S&P/LSTA

1 leveraged loan index.

2 Similar to the high yield bond market, energy
3 companies have also made up a sizable portion of the
4 leveraged loan markets over the last decade or so.

5 MR. GUNewardena: Can you go back -- thanks.

6 MR. NOURI: Another segment of the credit market
7 that has seen rapid expansion in the last few years is
8 the private debt, or also known as the non-bank lending
9 space, which stood at \$812 billion in assets under
10 management as of June 2019 and as the chart here
11 illustrates, has rapidly grown over the last two
12 decades, particularly as non-bank lending has stepped
13 in to provide credit to middle market companies as
14 banks have reduced their exposures to this market over
15 the last decade.

16 And moving to the next slide, here we're
17 illustrating the investor -- I'm sorry, back one,
18 sorry.

19 The chart here is illustrating the investor
20 composition of private debt markets, so we can see the
21 landscape is quite diverse with broad representation
22 from both institutional and private wealth funds

1 actively participating.

2 Now with that, I will hand it back to Mel to
3 conclude this presentation.

4 MR. GUNewardena: Thank you Mike.

5 The derivative markets have endured historic
6 levels of volatility, record volumes, and lower resting
7 liquidity, but have thus far been resilient and
8 transparent in offering price discovery and effective
9 risk management capabilities to all market
10 participants. Clearly there are threats and we all
11 across the agency are vigilant, and MIB will continue
12 to perform its role in monitoring, evaluating risks,
13 and provide real-time information and advice to our
14 Chairman, Commissioners, and the staff of the
15 Commission.

16 With that, I hand it back to you Abigail for any
17 questions.

18 MS. KNAUFF: Thank you, Mel. I'm going to hand
19 the meeting to Dena.

20 EEMAC CHAIR WIGGINS: Okay, thank you Mel,
21 Chris, and Mike for that presentation. At this time, I
22 would like to open the floor to questions and comments

1 from the Associate Members on the presentation.

2 Abigail, do we have any questions pending?

3 MS. KNAUFF: Yes. We have a question from Jim
4 Allison.

5 EEMAC CHAIR WIGGINS: Jim, could you read your
6 question and proceed. Thank you.

7 MR. ALLISON: Jim Allison, JCA Financial
8 Advisory Group. Panel, thank you for the presentation.
9 Very interesting. Not necessarily a very pleasant
10 presentation, but a very interesting one. And thank
11 you for the historical perspective, because the energy
12 industry has been volatile for as long as I've been
13 associated with it, which I will confess is even longer
14 than that long price history you showed.

15 As we look at the clearing business, are we
16 seeing any signs of strains or constraints in the
17 funding liquidity? And if we do see signs of
18 constraints in funding liquidity, are there limitations
19 on the ability of the Fed to intervene, or either gaps
20 in their legal authority or gaps in their ability to
21 intervene to release constraints in liquidity in the
22 clearing business?

1 MR. GUNewardena: This is Mel.

2 We've obviously been watching all of the
3 liquidity capabilities, not just in the generic
4 contracts or the forward contracts. We've looked at it
5 from the swaps, both kind of more the standardized
6 swaps and kind of the longer-dated bespoke swaps, and
7 we've also looked at kind of options which is important
8 part, and both cleared and uncleared contracts.

9 And clearly, there is a lot of price volatility
10 and some lower order book depth than you would expect.
11 But we also see many -- an increased volume of
12 contracts that are being both cleared and handled
13 through the system effectively.

14 So at this point, I'm not suggesting that there
15 will be disruptions in the future. But at this point,
16 we're reasonably comfortable that the systems that are
17 in place -- that I've been put in place, the controls
18 that have been put in place, and certainly the
19 infrastructure that supports the financial clearing of
20 these contracts, is functioning fairly and reasonably
21 given kind of where the markets are.

22 MR. ALLISON: So you think the clearing houses

1 and the clearing members are adequately funded?

2 MR. GUNewardena: I don't look at individual
3 clearing members, but as a broad market we look at kind
4 of analytics around kind of contracts and volume and
5 spreads and book depth, and they seem to be working
6 reasonably well.

7 There are areas within the agency that looks at
8 individual members and clearinghouses and they've not
9 reported anything that is of concern to them.

10 MR. ALLISON: Thank you.

11 EEMAC CHAIR WIGGINS: Abigail, are there other
12 Associate Members who have a question?

13 (No response.)

14 EEMAC CHAIR WIGGINS: Abigail?

15

16 DR. SANDOR: This is Richard Sandor is the line
17 open? I don't hear anything.

18 EEMAC CHAIR WIGGINS: The line is open, Richard,
19 this is Dena Wiggins. Can you hear me?

20 DR. SANDOR: I can Dena.

21 EEMAC CHAIR WIGGINS: Okay, we're waiting to see
22 if there are other Associate Members who have

1 questions.

2 DR. SANDOR: Just a comment. This is very well
3 done and thank you.

4 MS. PATTERSON: Dena, this is Delia Patterson
5 from APPA, I do have a question.

6 I was wondering how information sharing between
7 the CFTC's MIB and FERC's market monitoring group is
8 going.

9 MR. GUNewardena: Hi. Okay. So if I understand
10 your question, how do we share information so clearly
11 on a daily basis, we have daily briefings. We have
12 three levels of briefings.

13 One is a standard briefing in difficult market
14 conditions that we do every day which we have the
15 Commissioners, the Chairman, staff engaged and we kind
16 of go through the status of the marketplace. But in
17 general, we provide kind of a morning briefing that we
18 send across the Commission. And to the extent that
19 there's any significant or sudden adjustments or moves
20 that needs to be advised, we immediately get in touch
21 and we provide that information.

22 Across the various agencies, we have regular

1 conversations with our fellow regulators, including the
2 Fed, the Treasury, the SEC, and other regulators, which
3 we have both on topics specific to market conditions,
4 or kind of on a general basis, on a weekly basis.
5 We're well-coordinated and in constant touch, both
6 internally and externally, as we kind of respond to
7 consider the market conditions.

8 MS. PATTERSON: Thank you.

9 EEMAC CHAIR WIGGINS: Thank you. Are there any
10 other Associate Members who have a question or a
11 comment? And if you do if you could identify yourself,
12 please.

13 MR. COTA: Hi. This is Sean Cota from NEFI. I
14 have a question that on the hard Ag commodities, are we
15 seeing any volatility or stop limits occurring in those
16 exchanges at this point?

17 MR. GUNewardena: As all of our markets have
18 been kind of generally volatile and as the demand
19 destruction that has taken place, there's been some
20 volatility across the Ag markets, similar, not to the
21 same extent as we've seen in some of the financial
22 markets. As a matter of fact, we've been lifted up

1 recently in a number of the grain markets which is kind
2 of you know, positive. We do constantly monitor across
3 the board all of the agricultural markets to ensure
4 that they have transparency and fairness in the
5 activity, particularly in this difficult market
6 conditions.

7 And we've been working with the exchanges,
8 particularly in some of the markets that have been
9 under more significant pressure where -- kind of the
10 livestock market or others in some of the other soft
11 commodities, to ensure that we understand kind of the
12 market structure and working with others in the
13 Division of Market Oversight, and also across the
14 agency kind of monitoring these markets effectively to
15 ensure fairness.

16 MR. COTA: Thank you.

17 EEMAC CHAIR WIGGINS: Any other any other
18 Associate Members who would like to ask a question or
19 make a comment?

20 MS. KNAUFF: Dena, we have a question from Lael
21 Campbell.

22 EEMAC CHAIR WIGGINS: Lael, please proceed.

1 MR. CAMPBELL: I didn't have a question, but I
2 can comment. I thought the presentation was
3 insightful, not the best news.

4 Exelon Generation -- Exelon in general is very
5 focused on maintaining the critical infrastructure of
6 the grid right now. That's our main focus on the
7 electricity front. Electricity is going to be very
8 important for getting through all this.

9 So that's where we're at right now.

10 MS. KNAUFF: Thank you. Are there any other
11 questions?

12 EEMAC CHAIR WIGGINS: Shall we proceed to the
13 next EEMAC Members, Abigail?

14 MS. KNAUFF: I believe so.

15 EEMAC CHAIR WIGGINS: Thank you. At this time,
16 I would like to open the floor to questions and
17 comments from the EEMAC Members on the presentation.

18 MR. BLAND: This is Trabue Bland with ICE.

19 I just wanted to say I thought the presentation
20 was excellent. And from ICE's perspective, we've
21 appreciated the CFTC being very responsive during this
22 time.

1 Staff, I know that they're personally -- it's
2 challenging for them working from home as we're mainly
3 working from home, too. And they have been very, very
4 responsive for us, which has been helpful and I thought
5 I'd let Commission know.

6 Thank you.

7 MR. GUNewardena: Thank you.

8 EEMAC CHAIR WIGGINS: Anyone else from the EEMAC
9 membership? Abigail, are you seeing anyone?

10 MS. KNAUFF: I am not.

11 MR. SLOCUM: This is Tyson Slocum with Public
12 Citizen.

13 EEMAC CHAIR WIGGINS: Okay, Tyson please
14 proceed.

15 MR. SLOCUM: Sure. So my question does relate
16 to the presentations and specifically on the recent no-
17 action letters that the CFTC granted. Since those no-
18 action letters are part of the CFTC's formal response
19 to the significant market conditions are outlined in
20 the excellent presentation that we just heard.

21 One of the no-action letters issued on March
22 20th was to grant regulatory relief to an unnamed

1 financial entity that has significant loan and swap
2 exposure to the oil and gas sector, and the no-action
3 letter excludes this financial entity from major swap
4 participant registration and I believe that in the
5 opening remarks of the Chairman, the granting of this
6 relief was stated that it was intended to allow the
7 bank to continue to loan to the oil and gas sector.

8 My concern here is that the no-action relief is
9 granted through September 30th, which is a very long
10 timeframe, especially in relation to the other broader
11 no-action letters, which are granting relief through
12 June. And while we don't know the identity of the
13 institution, public records do show that for example,
14 Bank of Oklahoma, known as BOK Financial, has oil and
15 gas loans equal to 108 percent of tangible common
16 equity. So this is highly leveraged, they've got over
17 \$4 billion in loans.

18 And so, my question is, is extending this type
19 of relief in this very volatile time prudent through
20 September 30th? Or should the CFTC amend that, to have
21 a shorter niche, if you will, because in the no-action
22 letter, it also appeared that there was an assumption

1 that the oil and price -- that the oil price situation
2 may be short-term in nature. And I'm not sure that the
3 fundamentals are short-term in nature at this point.

4 So I just had a question to anyone who can
5 answer on whether or not the CFTC might modify elements
6 of that no-action letter.

7 CHAIRMAN TARBERT: This is the Chairman, I'm
8 happy to address that. I appreciate you're raising the
9 question.

10 And you know, look, I think the thinking behind
11 the no-action letter, ultimately, was we don't want a
12 situation where our banks and financial institutions
13 have extended loans. I'm not so sure if it's necessary
14 that they're going to continue, but a lot of them have
15 exposure and they may or may not hedge that exposure.
16 But given the situation, now, they are using our swaps
17 market, for example, to hedge those exposures and we
18 didn't want to create a situation where at least one
19 financial institution didn't want to hedge its exposure
20 in a prudent manner, because it was worried about
21 triggering a major swap participants. So it would
22 hedge its exposure and go over the threshold.

1 There was a lot of discussion amongst, you know,
2 what should the right date be? I think we settled on
3 six months because these are swap positions. But you
4 know, the idea was to do it during a period of time
5 that it gives some comfort but not extend it too far
6 into the future, but also not sort of grant it for only
7 a couple of months if in fact, those swaps would say on
8 the books, likely longer than that, or would be hard to
9 get off.

10 So, in the end, I think we settled on six
11 months. We'll see what happens going forward. I think
12 anyone else who wants to come to us needs to do it on a
13 one-off basis. I think we were pretty clear about
14 that. It's not sort of a blanket relief. But what we
15 don't want to do is undercut our banking sector, if
16 they're trying in good faith, to hedge their exposure
17 and their positions.

18 So we will continue to think about it and one of
19 the things we are thinking about to your point is, how
20 long should we extend the no-action relief? You know,
21 not too soon, but not so long. And, you know, we're
22 relying on the expertise of our staff to kind of help

1 us make those critical judgments, so I very much
2 appreciate the question.

3 MR. SLOCUM: And I very much appreciate the
4 answer Mr. Chairman.

5 And I have other questions, but if other -- I
6 don't want to monopolize a bunch of time, but I do have
7 other questions. But if you want to see if others do
8 as well, that's fine.

9 EEMAC CHAIR WIGGINS: Okay, Tyson let's see if
10 anybody else has questions from the EEMAC membership
11 and if not, we'll come back to you.

12 Abigail? Any other questions from the EEMAC
13 Members?

14 MR. CREAMER: This is Rob Creamer with the FIA
15 PTG, as well as Geneva Trading. I'd like to thank the
16 Chairman and the Commissioners for how -- just their
17 leadership through this very difficult process and I've
18 seen it first-hand and it's made a huge difference.

19 And I think the question that Tyson brings up is
20 very relevant. And I look at it from the perspective
21 of a market participant and representing a group that's
22 providing liquidity in these markets. And I think

1 there is a balance here that we need to make sure that
2 we are taking actions that are going to prevent
3 disruption into the markets. And without taking these
4 fast actions to stabilize things, the outcome would be
5 a lot worse. So I just want to point that out.

6 I also am mindful that we're coming into
7 quarter-end with the capital rules, and how these
8 affect liquidity providers. And I want to make sure
9 that that's on everyone's mind in terms of how many
10 strikes in the options markets exist, and how all of
11 these other risk is being calculated. And I'm just
12 curious if we've had any conversations internally about
13 the capital rules as we come to quarter-end and if
14 there's any relief that might be provided by the FCMS
15 on flexibility here.

16 CHAIRMAN TARBERT: Well, this is Chairman
17 Tarbert, again. I'm happy to field that. I mean, the
18 short answer to your question is that we want to make
19 sure that bank capital rules, you know, which are very
20 important, obviously, to the stability of the banking
21 system don't provide disincentives during this period
22 to supply liquidity, particularly to market-makers who

1 are taking critical sides of these trades and allowing
2 sort of the public to enter our markets to hedge their
3 risk.

4 There's the ongoing discussion regarding the
5 current exposure method versus SA-CCR and its phase-in.
6 And so, one of the things that I think people are
7 thinking about is whether or not since the banking
8 regulators are already going to move to SA-CCR, whether
9 or not they can do so earlier than, let's say next
10 month, and whether there's some relief there.

11 Ultimately, this is in the court of the banking
12 regulators, because their job is to ensure the safety
13 and soundness of our banking institutions. But this is
14 an issue that we've raised, but if they were going to
15 make changes that we think that they've already decided
16 are consistent with prudential requirements, but at the
17 same time, would perhaps provide more liquidity to
18 critical players in our markets, that they consider any
19 measures they can take to make that happen.

20 So it's very much an ongoing dialogue.

21 MR. CREAMER: Thank you.

22 MS. KNAUFF: And Dena, we have a question from

1 Bill McCoy.

2 EEMAC CHAIR WIGGINS: Bill, please proceed.

3 MR. McCOY: Yes, thank you Dena.

4 Thank you again, for the leadership and the
5 Commission for hosting this committee meeting during
6 these times. And I wanted to pick up on a comment and
7 question earlier with respect to the clearing, and
8 specifically, it was mentioned -- I believe by Mel,
9 that we've seen the increased volume of contracts
10 cleared effectively.

11 And I was wondering whether staff, MIB, has
12 observed whether there might be any corresponding
13 increase in the trading of block futures and cleared
14 swaps with a corresponding decrease in terms of OTC
15 derivatives or is this more the case that the increased
16 volume has been along each of these categories? Has
17 there been a migration from OTC derivatives to a
18 cleared product?

19 MR. GUNWARDENA: Not something that is very
20 significant, there's always kind of volatility and
21 transfer as you can imagine during even regular market
22 conditions where people choose different markets to

1 effectively hedge either directly in the futures
2 markets or in the cleared swaps markets or in the OTC,
3 that's a trade-off that we do watch to see if there is
4 kind of great transfer of activity from one into the
5 other, but we've not observed anything that is not
6 within kind of normal bounds and normal bands.

7 MR. McCOY: Thank you.

8 MS. KNAUFF: I don't have any other questions
9 from Members, Dena.

10 EEMAC CHAIR WIGGINS: Thank you very much for
11 the Members for your questions and comments and at this
12 time -- yes?

13 MR. SLOCUM: This is Tyson, I had another
14 question if I may.

15 EEMAC CHAIR WIGGINS: Certainly. I'm sorry, I
16 forgot to go back to you. I apologize.

17 Tyson, please --

18 MR. SLOCUM: That's okay. So the question is
19 again, in response to these questions at times the CFTC
20 has taken, what on its face appears to be prudent
21 measures to give some flexibility to a wide array of
22 market participants in its various March 17th no-action

1 letters to accommodate the fact that firms' employees
2 have to practice social distancing, traders, and other
3 key workers are telecommuting.

4 And so, some of the operational equipment that
5 traders and other key players utilize in their offices
6 may not exist at home and so I understand certain
7 recording and recordkeeping requirements have been
8 waived mainly through June.

9 The question is does the CFTC think it may be
10 prudent to structure in for the longer term
11 requirements for firms going forward to have
12 redundancies built into their systems to allow for more
13 remote operations of their platforms and so forth.

14 For example, Reuters is out with an article this
15 morning that many of the trading turrets
16 functionalities can be replicated through different
17 cloud-based software programs to allow traders to
18 continue time stamping and recording transactions the
19 same way that they do in their office. And so, does
20 the current events -- is the CFTC looking at the
21 current state of events as an opportunity to enact
22 permanent long-standing reforms for firms to build in

1 redundancies to deal with a future situation like this.

2 Thank you.

3 COMMISSIONER BERKOVITZ: Hi Tyson. This is Dan.

4 Let me answer that from my perspective. And as these
5 no-action letters and issues were brought to our
6 attention, that is certainly one of the questions that
7 was raised, that we talked about and discussed
8 internally, whether the existing requiring requirements
9 and plans and redundant capabilities took into account
10 that there might be this situation and obviously, they
11 didn't.

12 And that's going to be when we get through this,
13 that from my perspective, that should be one of the one
14 of the things -- there'll be a lot of lessons learned
15 in terms of operational readiness and capabilities and
16 redundancies after we've been prepared and our
17 regulated entities have to be prepared if you're
18 flooded out and then you can go to a second, you have
19 to have data redundancy and operations redundancy, have
20 off-site capability. But frankly, the fact that all
21 your traders or your people couldn't be together that
22 there would be the social distancing is not something,

1 a pandemic was not built in.

2 And we're going to have to do lessons learned,
3 as I think the whole country is on a lot of things that
4 what we're prepared for in the future.

5 So I think it's an excellent question. And when
6 we get through this, and as we look back on lessons
7 learned, I think that's something that we're going to
8 really have to carefully look at and see what type of
9 remote capabilities we have going forward.

10 EEMAC CHAIR WIGGINS: Do any of the EEMAC
11 Members have any questions, Tyson does that conclude
12 your questions?

13 MR. SLOCUM: I mean, I have a couple more
14 questions, but again, I don't want to hog the mic.

15 EEMAC CHAIR WIGGINS: I will give Abigail an
16 opportunity to opine on our time check, how are we
17 doing on time Abigail?

18 MS. KNAUFF: We have time for one more question.

19 EEMAC CHAIR WIGGINS: Okay, Tyson would you like
20 to ask one more question?

21 MR. SLOCUM: Sure. One of the Commissioners, I
22 don't recall which one in the opening statements said

1 that the CFTC has at this point the resources it needs
2 to deal with this unprecedented issue.

3 The question is as Congress is putting together
4 various legislative responses that include beefed up
5 funding for agencies, are there some -- do other
6 Commissioners or staff have thoughts on additional
7 resources that that Congress can provide in this time.

8 CHAIRMAN TARBERT: Tyson, this is Heath again,
9 the Chairman, I can answer that. The answer is we do.
10 And we have made that request to Congress. It's
11 modest, because I think overall, we do have sufficient
12 resources, but given that the agency is also sort of
13 doing some lessons learned right now, we're all working
14 remotely and that seems to be going quite well.

15 But as I mentioned in my presentation earlier,
16 we expect we'll be holding a lot more meetings like
17 this. So there's some things that we've asked for
18 specifically in terms of resources that will allow us a
19 lot more flexibility and our ability to address some of
20 the technological issues that we're no doubt bound to
21 face in the next few months. So we have, in fact,
22 provided our input to Congress and hope our requests

1 are included in whatever piece of legislation that's
2 passed.

3 MR. SLOCUM: That's great, Mr. Chairman, thank
4 you so much. And if there's anything that the
5 individual Members of the Energy Environmental Markets
6 Advisory Committee can do, or if the committee could
7 formally weigh-in an endorsement of increased funding,
8 so that the CFTC can do its job effectively. I would
9 welcome that sort of input from the Advisory Committee.

10 EEMAC CHAIR WIGGINS: All right. Thank you to
11 all of the EEMAC Members for your questions and
12 comments. We'll turn this back to the Commissioners.
13 Do any of the Commissioners have a question?

14 MS. KNAUFF: I'm not seeing any online, but
15 please feel free to speak.

16 COMMISSIONER BERKOVITZ: Hi Abigail. This is
17 Dan. I do have a question. What are we seeing and
18 what is the market showing in terms of longer dated
19 liquidity and energy markets going out, say a year or
20 so and in oil and the related products -- is there
21 liquidity out in the curve? And for folks who -- are
22 there folks who still want to hedge out there or what

1 is the -- are we getting price discovery for a year
2 from now and what type of liquidity is out there?

3 MR. GUNewardena: Hi, Commissioner Berkovitz.

4 The liquidity is obviously lower as a starting
5 point. So I would just say in general liquidity
6 overall is lower by about 30 to 50 percent across the
7 board, so when you look at kind book depths or bid-
8 offer spreads, mid-books, things like that. When you
9 look at the different structures, we observe that
10 generally the liquidity is lower, and that's not
11 inconsistent, it's not unique to this situation because
12 whenever there is increased volatility, clearly the
13 resting books become kind of smaller. But having said
14 that, we're also seeing a lot of activity going on and
15 most of that activity in the shorter term contracts so
16 up to about a year, we see reasonable hedging activity.

17 There's less activity taking place beyond one
18 year just on the futures contracts. That doesn't mean
19 that there's no liquidity, it just means that there's
20 generally historically I think, as the hedging needs
21 have changed in the industry, most of the U.S. hedging
22 we've seen is kind of up to a year, very different from

1 previously when it was kind of more longer dated.

2 On the swaps also we see the shorter type swaps
3 contracts, kind of more active, kind of standardized
4 swaps. The less standardized they become, they're
5 obviously a lot wider.

6 I'm not sure whether that answers your question,
7 it doesn't show as if, right now, when you look at
8 transaction analysis, it doesn't show a lot of activity
9 in the longer-dated contracts, particularly OTC. But
10 at the same time, that doesn't necessarily mean that
11 there is no liquidity because those are generally
12 bilateral contracts anyway.

13 COMMISSIONER BERKOVITZ: Thank you Mel.

14 MR. CREAMER: This is Rob Creamer with Geneva.
15 So we're seeing a lot of activity in the sheer number
16 and volume of transactions that we're doing in the
17 shorter-dated contracts in the swap markets.

18 So there's a lot of action and that all
19 corresponds to the amount of volume and volatility
20 that's going on through the markets. Markets are
21 certainly wider. Further out in tenor the liquidity we
22 are seeing is sparse for people who are quoting, people

1 are trying to stay where there is active liquidity
2 shown on the screen and aren't taking chances so much
3 providing liquidity further out.

4 I don't know the best way to improve that. But
5 that is the case and you're not going to really see
6 that liquidity on the screens. And it may be present
7 as the gentleman suggests. But we're seeing fewer
8 transactions from our vantage point going on several
9 years out.

10 COMMISSIONER BERKOVITZ: Rob, this is Dan. You
11 raised an interesting question. Are members of your
12 group continuing to -- in this highly volatile period,
13 are your members of your group continuing to provide
14 liquidity to the market under these circumstances? How
15 is the general level of participation on principal
16 traders?

17 MR. CREAMER: Absolutely. We are 100 percent
18 active. Speaking on behalf of Geneva and through
19 conversations with my counterparts at other principal
20 trading firms, they are certainly busy providing
21 liquidity all day long. So I don't think there's an
22 issue there. Certainly the markets are volatile.

1 Markets are wider, the bid-ask spread has widen out,
2 but everyone is fully engaged and just acting very
3 carefully in the markets and we've seen some very
4 seismic sort of moves, but I think all of that risk has
5 been well-managed by the community and I think that
6 everything seems to be going as planned.

7 The only risk that I have, or the thing that's
8 on the forefront of my mind, deals more with the
9 players in the options markets on that capital issue
10 and their ability to continue providing liquidity. It
11 also affects those further out in tenor in the energy
12 markets, where some people with large books might be
13 mindful that they can't take on more inventory knowing
14 they're coming into the end of the quarter here.

15 But I would say just to answer your question, I
16 think things are going well, as well as could be
17 expected with the volatility, so let's say that.

18 COMMISSIONER BERKOVITZ: Great, thank you.

19 EEMAC CHAIR WIGGINS: Abigail, any other
20 questions form Commissioners that you can see?

21 MS. KNAUFF: I don't have any, but please if
22 there are Commissioner questions please feel free to

1 ask them at this time.

2 (Pause.)

3 EEMAC CHAIR WIGGINS: All right. Well, there is
4 no further Commissioner questions. We want to thank
5 you, Commissioners for your input and comments on the
6 presentation.

7 I want to thank all of the Members, Associate
8 Members, and particularly the MIB staff for your
9 participation and comments and questions. We look
10 forward to the ongoing work of the EEMAC and our next
11 meeting on a date in the next couple of months.

12 And at this point, I will turn it over to
13 Abigail for the closing remarks.

14 MS. KNAUFF: Thank you. Dena, before we begin
15 the closing remarks, I want to confirm for the record
16 that the following Associate Members and Members have
17 been in attendance on the call for the Court Reporter.

18 Associate Member Erik Heinle, Associate Member
19 Dr. John Parsons, and Associate Member Prokop. I'd
20 also like to confirm the Member Rob Creamer has been on
21 the call and Member Demetri Karousos has been on the
22 call.

1 With that I will now recognize -- as we begin
2 the closing remarks, I will now recognize Commissioner
3 Quintenz to give his closing remarks.

4 COMMISSIONER QUINTENZ: Thank you so much. I
5 don't have any closing remarks. I'd just really like
6 to thank Commissioner Berkovitz, Dena, Abigail, Lucy,
7 just all the staff for putting this together.

8 The participation of this committee under these
9 circumstances is so valuable and again, a big thanks to
10 our Market Intelligence Branch and their daily
11 briefings and herding all over the different Divisions
12 together and coordinating the information throughout
13 all offices, Commissioners and echo Commissioner
14 Stump's comments, the privilege it is to work with my
15 fellow public servants.

16 MS. KNAUFF: Thank you Commissioner Quintenz. I
17 now recognize Commissioner Behnam to give his closing
18 remarks.

19 COMMISSIONER BEHNAM: Thank you, Abigail.
20 Again, thanks to you and Lucy and Dena for leading this
21 effort. Thanks to Mel and his team and MIB. Thanks to
22 Commissioner Berkovitz and my fellow Commissioners.

1 And of course, thanks to all the EEMAC members. Thanks
2 for taking the time participating and sharing your
3 thoughts, obviously very critical to us. But given the
4 circumstances and given the challenges we're all facing
5 at home and in the workplace, this is an incredible
6 effort.

7 I do you want to thank Commissioner Berkovitz
8 for leading this effort for adjusting the agenda. I
9 know he had a bigger agenda in mind, but keeping in
10 line with the times and the challenges we're facing
11 today, focusing on what I view as critical information
12 to both the Commission, the staff and the membership of
13 the committee.

14 I think this is extremely helpful. So thanks to
15 everyone, and I look forward to hearing from and seeing
16 you soon and be well. Thank you.

17 MS. KNAUFF: Thank you Commissioner Behnam. I
18 now recognize Commissioner Stump to give her closing
19 remarks.

20 COMMISSIONER STUMP: Thank you, Abigail. I
21 don't have any formal remarks. I echo the thanks that
22 everyone else has offered. Again, I just want to say

1 how proud I am to work with the staff and all of the
2 Divisions who are working remotely, but also working
3 around the clock to ensure that we have the information
4 we need and the ability to be agile in these
5 circumstances.

6 And so with that, I will turn it back to you.
7 But thanks to everyone for participating.

8 MS. KNAUFF: Thank you Commissioner Stump. I
9 now recognize Commissioner Berkovitz to give his
10 closing remarks.

11 COMMISSIONER BERKOVITZ: Thank you, thanks to
12 everyone. This has been -- the fact that it went
13 smoothly and effectively. It was a great presentation.
14 Really, when it looks this easy, it never is. So thank
15 you, Abigail and Lucy and ODT, our technology folks for
16 making this and Dena, as well for your leadership in
17 this, and obviously my fellow Commissioners, for your
18 support and for a great collaboration in addressing
19 what we have to address.

20 And of course, the most important obviously is
21 our market participants who've taken the time today and
22 as I said earlier in my remarks, those in the energy

1 industry who are continuing to work to provide us with
2 energy during this crisis, we still have transportation
3 needs and energy needs to keep us going and get us
4 through this and there are hundreds of thousands, if
5 not millions of people in the energy industry and the
6 associated industries working to keep this country
7 running it, and I want to express my appreciation and
8 gratitude to my fellow citizens for that.

9 One thing that this has really stressed for me
10 as we've been teleworking, is the need to actively
11 reach out to others in this time and communicate that
12 sitting here, not in our normal offices, just all the
13 more important to maintain the telephone lines and the
14 computer. So I would just urge all the members to
15 reach out to us at the CFTC. If you're seeing things,
16 want to comment on things, we've got a number of things
17 out for comment, to keep up the communication to us.

18 We really depend on information coming from you.
19 We do the monitoring, we look at the data, we talk to
20 our exchanges, but we also depend on people coming to
21 us. So I'm just strongly encouraged, I still have a
22 open door policy. You can't come through the door but

1 you can through my phone line. So let's keep in touch
2 and thank you very much and I'll be looking forward to
3 -- hopefully we have to position limits meeting in
4 early May.

5 So thanks to everyone again.

6 MS. KNAUFF: Thank you, Commissioner Berkovitz.
7 I'd also like to confirm that we have one more Member
8 Jackie Roberts, who is also in attendance for the Court
9 Reporter.

10 Thank you to all the EEMAC Members and Associate
11 Members for attending this meeting. A copy of the
12 slides presented today will be posted to the
13 Commission's EEMAC website in the next several business
14 days. A transcript of the event will also be posted in
15 the coming weeks. Please stay well and keep an eye out
16 for survey dates for the next EEMAC meeting which will
17 address the proposed position limits rulemaking.

18 This meeting is now adjourned. Thank you.

19 (Whereupon, at 11:09 a.m., the Energy and
20 Environmental Markets Advisory Committee meeting was
21 adjourned.)