09-17-09

House Ag's Peterson frustrated by slow pace of financial reform

By Jon H. Harsch

Outside a House Agriculture Committee hearing on financial regulatory reform legislation Thursday, Committee Chair Collin Peterson (D-MN) vented his frustration: "We just had the anniversary of the Lehman collapse and people are saying that Congress hasn't done anything, that here we are a year later and we're just as bad off as we were before, and they're right. It's taking too long."

Peterson noted that while his Agriculture Committee has passed legislation to fix problems with derivatives trading (H.R. 977, the Derivatives Markets Transparency and Accountability Act), no other House or Senate committee has taken similar action. He said that after meeting with the Senate Agriculture Committee's new Chair Senator Blanche Lincoln (D-AR) on Wednesday, he's considering going ahead with separate legislation just dealing with speculation in the commodities markets. He explained that "You've got two different issues. When you bring the financials into this thing, you've got a lot of complications that you're bringing in that you don't necessarily have over on the commodities or hedging side."

One complication, he pointed out, is that major banks are seeking exemptions from proposed new regulations – because exotic unregulated derivatives are lucrative for the big banks. Peterson indicated that he doesn't favor continuing these exemptions which, he says, "caused this whole problem in the first place when the hedge exemption was given to these index funds and pension funds and so forth."

Peterson indicated his next step will become clearer following the Committee's Sept. 22nd hearing next week. That hearing will bring both Commodity Futures Trading Commission (CFTC) Chair Gary Gensler and Securities and Exchange Commission (SEC) Chair Mary Schapiro to the Hill to answer questions on regulating the over-the-counter derivatives markets. Peterson said he's hopeful that he will be able to get the House and Senate Agriculture Committees and Gensler "all on the same page" in order to move ahead with regulatory reforms.

During Thursday's hearing, witnesses representing participants in the derivatives markets warned that while they support the general principle of greater transparency and accountability, any reforms must be limited or else they will force trading to go overseas to escape overregulation.

Jon Hixson, Cargill's Director for Federal Government Relations, testified that under market reforms being considered, "it is highly likely that Cargill would be forced to greatly reduce, if not eliminate, offering our customers" customized hedges to manage price volatility. He said "the risk management products that would remain in the market would dramatically increase the borrowing and working capital required for hedging." He added that "In addition, we would expect prudent hedging to decline significantly in those situations where Cargill, like other end-users, manages its own commodity, interest rate, and foreign exchange risks, due to the imposition of mandatory margining and the drain on working capital. With less hedging, end users will be faced with more price risk exposure and volatility."

Robert Pickel, CEO of the International Swaps & Derivatives Association, testified that for non-financial end-users of derivatives, the proposed reforms "would impose significant costs, divert key resources and decrease the competitiveness of such firms."

House Agriculture Committee Ranking Member Frank Lucas (R-OK) issued a similar warning during the hearing, insisting that if the proposed reforms are enacted, "The increase in regulation will increase the cost of doing business and that increase will be passed on to consumers." He said that increased margin and capital requirements for derivatives trading would drain capital, "capital that otherwise would be used for research and development, payroll, and other business purposes."

These warnings left Peterson shaking his head. He explained that "What I'm trying to do is make sure that the risk follows the transactions" whether through clearing or other means so that "it's covered and not going to come back and the taxpayers be asked to bail this stuff out."

President Obama also considers market reform a top priority. In CNBC interview this week, he warned that the critics of market reform may not be happy if Congress fails to pass legislation: "If Washington does not provide the kind of regulatory oversight that's needed to make sure that we've got transparency, accountability, clear rules of the road, then ironically what you may end up with is the government being even more meddlesome in the markets than it otherwise would have been."

To read the opening witness statements from the Sept. 17 OTC derivatives hearing, go to: http://agriculture.house.gov/hearings/statements.html

#30