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JOINT ECONOMIC COMMITTEE

March 21, 2011

Gary Gensler, Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Chairman Gensler:

For too long, the actions of a few profit-driven speculators have been allowed to manipulate the energy commodity market and drive up the cost of gasoline and home heating oil for millions of American families. In response to this egregious practice, the Dodd-Frank reform legislation charged the Commodities Futures Trading Commission (CFTC) with the task of imposing new regulations on the energy commodities market. On January 13, 2011, the CFTC released draft rules to monitor the number of contracts investors can hold for a given energy commodity. While this proposed rule would provide further insight into the actions of energy traders, it does little to put an end to rampant speculation in the energy markets. I urge the CFTC to put forth a proposed rule that includes stringent position limits on energy speculators, without further delay.

I oppose the CFTC's recent decision to delay action on imposing position limits on speculators in the energy markets. The CFTC's proposed rule undermines the intent of the Dodd-Frank financial reform legislation which required the Commission to clamp down on rampant speculation in the energy commodities market. Instead of imposing stringent limits on the number of contracts held by a single commodity trader, the Commission proposes to collect additional information on how these new regulations may affect the broader market. The CFTC will enhance monitoring of speculators that hold physically-deliverable or cash-settled energy contracts that exceed the "position points" outlined in the rule. This proposal does not do nearly enough to reign in this unfair manipulation of the energy commodities market.

Instead of passively monitoring speculators actions, the CFTC should be imposing hard position limits on both categories of contracts. This action is necessary to ensure that investors in energy commodity derivatives are prevented from holding an excessive number of commodities contracts of any kind. The prolonged absence of CFTC regulation in this industry has caused large fluctuations in the prices of home heating oil and gasoline and resulted in immeasurable harm to families across America. The implementation of these limits are critical to reigning in excessive speculation and controlling price volatility in the energy markets.

The draft rules also exclude financial institutions from being considered a bona-fide hedger. This is very positive because financial entities, such as hedge funds, have been the primary culprit of commodity speculation abuses and these entities should be significantly limited in the number of contracts they hold. When the CFTC ultimately sets forth position limits, only bonafide end users should be exempted to ensure the relevant industries can hedge against industry risk. Investment banks and other financial institutions should not be limited if they purchase contracts on behalf of bonafide end users, but these financial entities should be limited in their abilities to place bets for their own profits. This limitation will put an end to excessive speculation that drives up energy prices without posing an undue burden to industries that depend on derivatives to hedge their investments in the commodities futures market.

The role of the Commission is to protect the American public and uphold the integrity of the commodity markets. By imposing a two tier system of position limits on investment banks and other derivative traders engaged in speculative bets, the CFTC will protect tax payers from unnecessary fluctuations in energy prices while allowing for a fully functional and robust commodities market. With gasoline prices recently at an all time high, the need for regulations of commodity speculators is more urgent than ever before and I encourage the CFTC to act quickly and adopt stringent position limits on energy speculators.

Best regards.

Sincerely,

Maurice D. Hinchey