

COMMODITY MARKETS OVERSIGHT COALITION

An Alliance of Derivatives End-Users & Reform Advocates

May 4, 2010

The Honorable Harry Reid
Majority Leader, U.S. Senate
522 Hart Senate Office Building
Washington, DC 20510

The Honorable Mitch McConnell
Minority Leader, U.S. Senate
361A Russell Senate Office Building
Washington, DC 20510

Dear Majority and Minority Leaders:

The Commodity Markets Oversight Coalition is an alliance of consumer advocates and commodity producers, marketers and end-users that rely on derivatives to hedge commodity price fluctuations and to insulate their businesses and consumers from risk. For three years we have called for legislative reform of derivatives markets to strengthen oversight, transparency and stability, address regulatory inadequacies in the existing derivatives markets, and limit the role of financial speculation in regulated, over-the-counter (OTC) and off-shore markets.

In light of these goals, our coalition formally endorsed the “Wall Street Transparency and Accountability Act,” which was reported out of the Senate Agriculture Committee, in a letter dated April 23rd and requested that this legislation be included in the broader financial services package, S.3217. We are pleased that Senators Dodd and Lincoln were able to come to an agreement and that the important derivative reforms will be included in the broader financial reform package to be considered on the Senate floor.

We are especially supportive of the narrow exemption from mandatory clearing requirements for legitimate commercial end-users that use derivatives to manage risks associated with their real-world businesses. Recently, financial entities, including hedge funds, investment banks and insurance companies, have begun to use commodity derivative contracts to hedge the risk of a declining dollar or rising interest rates. While these financial entities have a legitimate interest in hedging their risk, they are not producers, distributors or end-users of physical commodities. Moreover, in recent years their participation in the over-the-counter commodities markets now dwarfs that of *bona-fide* physical hedgers.

These financial entities’ hedging activities have dramatically increased volatility and uncertainty in commodity prices and have resulted in dramatic price swings that are injurious to traditional commodity end-users. For these reasons, financial entities should not be exempted from the mandatory clearing requirements and the end-user exemption should remain narrowly tailored to those businesses that produce, market or consume the underlying commodity.

We have recently learned that you and your colleagues have received communications from the so-called “Coalition for Derivatives End-Users” and other groups claiming to speak for “derivatives end-users.” Please know that this group **does not** speak for our coalition or its members. This so-called coalition of “end-users” includes many entities that neither produce, market nor consume the physical commodity that they seek to invest in –they are not traditional end-users. Given the nature of their suggested changes to the legislation it is questionable whether in fact they have the issues of commercial end-users at heart.

Our coalition opposes any expansion of exemptions in the derivatives title in such a way as to create new loopholes for financial market interests. If the Senate accepts the recommendations of the “Coalition for Derivatives End-Users” and others claiming to speak for legitimate end-users, it will create new loopholes for financial players, thereby enabling and exacerbating the very speculation and unchecked risk that the bill seeks to eliminate.

Specifically, our coalition:

- **Opposes expanding the end-user clearing exemption to financial entities** or anyone other than legitimate commercial end-users utilizing derivatives markets to hedge commercial risk.
- **Opposes eliminating the category of “Major Swap Participant”** and replacing it with a system of exemptions that would allow hedge funds and other financial players to exempt large portions of their derivatives portfolios.
- **Opposes lowering capital/margin requirements for financial players**, including swap dealers, major swap participants and other financial entities.
- **Opposes eliminating “too-big-to-fail” prohibitions with respect to federal assistance** for swap dealers and other financial participants.
- **Opposes new powers allowing the Treasury Secretary to exempt entire categories of swaps** from regulation, which would undermine the authority of independent regulators like the Commodity Futures Trading Commission and the Securities and Exchange Commission.

None of the above measures will benefit commercial end-users. We urge you to enact responsible legislation that will protect legitimate commercial hedgers and consumers from excessive speculation and systemic risk, not create new loopholes for financial interests.

Thank you for your consideration and we are available to discuss this matter with you further.

Sincerely,

American Cotton Shippers Association
Air Transport Association
American Trucking Associations
Arkansas Oil Marketers Association
Atlantic Cotton Association
California Black Farmers & Agriculturalists Association
California Independent Oil Marketers Association
Colorado/Wyoming Petroleum Marketers Association
Consumer Federation of America
Florida Petroleum Marketers Association
Food & Water Watch
Fuel Merchants Association of New Jersey
Gasoline & Automotive Service Dealers of America
Grassroots International
Independent Connecticut Petroleum Association
Institute for Agriculture and Trade Policy
Louisiana Oil Marketers & Convenience Store Association
Massachusetts Oilheat Council
Maine Energy Marketers Association
Maryknoll Office for Global Concerns
Masters Capital Management
Michigan Petroleum Association
Michigan Association of Convenience Stores
Missionary Oblates
National Association of Oilheating Service Managers
National Association of Truckstop Operators
(Continued)

National Latino Farmers & Ranchers Trade Association
Nebraska Petroleum Marketers & Convenience Store Association
New England Fuel Institute
New Mexico Petroleum Marketers Association
New Rules for Global Finance
New York Oil Heating Association
North Dakota Petroleum Marketers Association
North Dakota Propane Gas Association
North Dakota Retail Association
Oil Heat Institute of Long Island
Oil Heat Council of New Hampshire
Oil Heat Institute of Rhode Island
The Organization for Competitive Markets
Petroleum Marketers Association of America
Petroleum Marketers & Convenience Store Association Kansas
Petroleum Marketers & Convenience Stores of Iowa
Propane Gas Association of New England
Public Citizen
R-CALF USA
South Dakota Petroleum & Propane Marketers Association
Souther Cotton Association
Texas Cotton Association
Utah Petroleum Marketers & Retailers Association
Vermont Fuel Dealers Association
Western Cotton Shippers Association
Western Peanut Growers
West Virginia Oil Marketers and Grocers Association

cc: All Members of the United States Senate