INSTITUTE FOR AGRICULTURE AND TRADE POLICY

PRESS RELEASE

**For immediate release**
**October 18, 2011**

## Press Contact

Andrew Ranallo
Communications Associate
+1 (612) 870-3456
andrew@iatp.org

## About IATP

Institute for Agriculture and Trade Policy works locally and globally at the intersection of policy and practice to ensure fair and sustainable food, farm and trade systems. IATP is headquartered in Minneapolis, Minnesota with an office in Washington D.C.

# Weak CFTC position-limit rule ineffective, unsound says IATP

## Wall Street flexes muscles, excessive speculation to continue on agriculture commodity markets

**MINNEAPOLIS** – Today's Commodity Futures Trading Commission (CFTC) 3-2 vote to pass a weak position-limit rule will not suffice to prevent excessive speculation that has roiled commodity prices since at least 2006, according to the Institute for Agriculture and Trade Policy (IATP).

A position-limit rule puts a ceiling on the percentage of contracts that any entity and its subsidiaries can control over a given trading period for a referenced commodity contract, e.g., Chicago Board of Trade corn. With high or non-enforced position limits, a few big players can drive commodity derivatives prices. Under the new rules, agricultural limits will be reviewed every two years, while energy and metals contract limits will be reviewed annually, on the basis of commodity exchange data verified by the CFTC. The limit formulas reflect historic needs to prevent manipulation of prices in physical markets, rather than what is needed now to prevent excessive speculation by banks, hedge funds and other important financial institutions.

"The financial industry–proposed limits complied with the Congressional mandate that the CFTC set position limits, but as set will not enable effective price hedging by commodity users nor protect the public against financially induced price volatility," said IATP's policy analyst Steve Suppan.

The rule-making process designed and executed by the CFTC commissioners and staff was laudably transparent, but did open the commission to an avalanche of demands by Wall Street lobbyists that the CFTC show, prior to rule implementation, that a position-limit rule would not affect profits. In all, the CFTC received more than 15,000 comments on the draft rule. Intense negotiations on the rule continued up to and during today's CFTC meeting. The final version of the rule has not yet been published, although a few members of the press received a penultimate, embargoed version.

In addition to being set too high to be effective, the new position-limit rule fails to incorporate provisions allowing for an emergency review of position limits if they fail to prevent excessive speculation, and does not account for aggregate positions held by one entity across several trading venues. These provisions were advocated by the Commodity Markets Oversight Coalition (CMOC), an alliance of commodity users and public interest groups, of which IATP is a member.

In the new rule, position limits for cash-settled only contracts, i.e., those which don't require physical delivery of a commodity, would be created on a one-to-one ratio with physical delivery contracts. Currently, there are no cash-settled only agricultural contracts, so the rule creates the opportunity for one entity to hold up to 25 percent of positions in a physically deliverable contract and 25 percent cash-settled only positions for a commodity referenced in the rule. Because the overwhelming majority of the commodity contracts to which the rule applies are agricultural, increased speculation in "cash-only" agricultural contracts likely will lead to higher and more volatile food prices worldwide. U.S. commodity contract prices provide benchmarks for import prices in many developing countries, where high and volatile prices often lead to increased hunger.

"Without effective position limits, our food system and agricultural prices will be distorted by purely financial speculation. It's tragic that a rule so ineffectual could come out of such a transparent process," said IATP's Steve Suppan.

The CFTC's position-limit rule is one of more than 30 major rules proposed to implement the derivatives chapter of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, which faces heavy and persistent resistance from Wall Street and its congressional allies. Dodd-Frank requires a study to review the effect of agreed rules one year following their implementation. U.S. House of Representatives–proposed budget cuts to the CFTC could make the agency unable to regulate modern markets, or reduce the volatility that caused the 2008 worldwide price crisis and financial collapse.

In 2008, IATP was one of the first to report on the role Wall Street speculators had in exacerbating volatility on agriculture commodity markets. See all of IATP's work on commodity market speculation at www.iatp.org.

<30>