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HOUSE OF REPRESENTATIVES

REPORT
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COMMODITY FUTURES TRADING COMMISSION REAUTHORIZATION ACT OF 1995

APRIL 6, 1995.—Ordered to be printed

Mr. ROBERTS, from the Committee on Agriculture, submitted the following

REPORT

[To accompany H.R. 618]

[Including cost estimate of the Congressional Budget Office]

The Committee on Agriculture, to whom was referred the bill (H.R. 618) to extend the authorization for appropriations for the Commodity Futures Trading Commission through fiscal year 2000, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

BRIEF EXPLANATION

H.R. 618, the Commodity Futures Trading Commission Act of 1995, authorizes appropriations for the Commodity Futures Trading Commission is such sums as are necessary for each of the fiscal years 1995 through 2000. The bill contains no other amendments to the Commodity Exchange Act.

PURPOSE AND NEED

The nation's commodity futures markets are a valuable resource to U.S. commerce and industry, providing efficient risk management instruments that also are the main price discovery mechanism for the nation's agricultural economy, which is a significant contributor to the wealth of the United States and the mainstay of rural America.

The industry continues to grow at a phenomenal rate. In calendar year 1994, total trading of futures and options exceed 650 million contracts, more than 26 percent greater than in the previous year. Interest rate futures dominate these markets. Nearly 50 percent of the total volume in 1994 was in interest rate prod-

99–006

ucts, and they accounted for almost 70 percent of the total growth last year. During fiscal year 1990 in comparison, the total volume of futures and option activity was 334 million contracts. There are currently 10 exchanges actively trading futures and option contracts in the U.S.; however, the Commission, in addition to its exchange oversight, also oversees the regulation of 255 commodity brokerage firms, more than 49,000 salesmen, 9,000 floor brokers, 1,164 floor traders, more than 1,200 pool operators, about 2,500 commodity trading advisors and hundreds of introducing brokers.

The Commission's responsibilities also include over-the-counter (OTC) derivative instruments, which continue to develop under the exemptive authorities Congress granted the Commission in its last reauthorization enacted as a part of the Futures Trading Practices Act of 1992 (1992 FTPA) (P.L. 102–546). In conjunction with these new authorities, the Commission released in fiscal year 1994 a comprehensive report, "OTC Derivative Markets and Their Regulation," which concluded that no fundamental changes in the regulatory structure appeared to be needed, although greater coordination among federal financial regulators would help assure that oversight remains adequate for these constantly changing markets.

Other reports mandated by the 1992 FTPA were delivered in a timely manner and included, in addition to the OTC study, a study of global competitiveness of U.S. futures markets, an analysis of penalties imposed by the Commission and industry self-regulatory organizations, an assessment of exchange audit trail and trade recordation systems and an assessment of the regulatory benefits of computerized trading systems.

Although the Commission's responsibilities in regulating financial instruments have evolved with market developments, the Commission still places a primary emphasis on the exchanges' agricultural markets. Farmers, ranchers and agribusinesses understand the importance of these markets to their business success and actively use them for hedging. In addition, agricultural commodity prices discovered in U.S. futures markets reflect the worldwide attention and use of these markets.

In addition, the U.S. Department of Agriculture has expanded its agricultural options pilot program authorized by the 1990 Food, Agriculture, Conservation and Trade Act, and farmers continue to show an interest is using options in their marketing strategies.

As the Committee noted in its 1992 reauthorization, the Commission is a permanent agency. The Commission has achieved parity with other federal regulators, and the Committee intends to pursue actively its legislative and oversight responsibilities to shape the size and the role of the Commission so that it may continue to meet future challenges and innovations in the nation's futures and over-the-counter industry.

SECTION-BY-SECTION ANALYSIS

SECTION 1—SHORT TITLE

Section 1 provides that the bill may be cited as the Commodity Futures Trading Commission Reauthorization Act of 1995.

SECTION 2—AUTHORIZATION OF APPROPRIATIONS

Section 2 amends Section 12(d) of the Act to provide authorization for appropriations in such sums as are necessary for each of the fiscal years 1995 through 2000.

COMMITTEE CONSIDERATION

I. HEARINGS

The Subcommittee on Risk Management and Specialty Crops held public hearing on February 28, 1995, on H.R. 618. Witnesses included Mary L. Schapiro, Chairman of the Commodity Futures Trading Commission; Patrick H. Arbor, Chairman of the Chicago Board of Trade; John F. Sandner, Chairman of the Chicago Mercantile Exchange; Bennett J. Corn, President of the Coffee, Sugar and Cocoa Exchange; Daniel Rappaport, Chairman of the New York Mercantile Exchange; Peter F. Karpen, Chairman of the Futures Industry Association; John G. Gaine, General Counsel of the Managed Futures Association; and Robert K. Wilmouth, Chairman, National Futures Association.

The Subcommittee also received written statements for the record from the National Grain and Feed Association, the Kansas City Board of Trade, the American Cotton Shippers Association, and the National Cattlemen's Association.

Four important issues were addressed by witnesses during the Subcommittee hearing: enhanced audit trail and trade recordation systems, transaction taxes, the treatment of swap transactions under Part 35 of the Commission's rules and the merger of the CFTC and SEC.

CFTC Chairman Schapiro specifically addressed the audit trail issue in her prepared testimony. She testified that, "The Commission believes that the exchanges can make significant improvements to their current audit trail systems through non-electronic enhancements and that such improvements can demonstrate a good faith attempt to meet the 1995 standards of independence, unalterability and sequencing."

In response to a question from Subcommittee Chairman Ewing, Ms. Schapiro reiterated that "* * * we believe that with substantial enhancements, electronic and non-electronic, to existing audit trail systems, that the exchanges can ultimately meet the requirements of the '92 statue."

In the case of the Clinton Administration's proposed transaction taxes, Mr. Ewing asked Ms. Schapiro about the effects of transaction taxes on U.S. futures markets' competitiveness in global markets. Ms. Schapiro acknowledged that adding costs to futures transactions may discourage some market participants from using U.S. markets and that she was sensitive to the impact transaction taxes might have. However, she indicated she could not quantify what that impact might be.

In response to concerns about the Commission's treatment of swap transactions expressed in a letter to Subcommittee Chairman Ewing from Mr. Baker, a Member of the Committee, and a written question submitted by Mr. Doolittle, a Member of the Subcommittee, Ms. Shapiro indicated that the Commission's views on swap contracts had not changed since the Commission published a "Policy Statement Concerning Swap Transactions" in the Federal Register on July 21, 1989.

The Commission's response, delivered via Subcommittee Chairman Ewing on April 4, 1995, to Mr. Doolittle specifically noted the Congress made clear in the 1992 FTPA that legal certainty was needed in this area; that as long as swap transactions continued to meet certain specifications, the Commission would adhere to the 1989 policy statement; and that Congress did not require the Commission to determine whether or not swap transactions are futures and, indeed, the Commission did not make that determination in its Part 35 rules.

Finally, the Chicago Board of Trade, the Chicago Mercantile Exchange and the Coffee, Sugar and Coacoa Exchange testified in opposition to a merger of the Commodity Futures Trading Commission and the Securities and Exchange Commission, citing lack of additional benefit in cost savings or a reduction in government bureaucracy.

II. SUBCOMMITTEE CONSIDERATION

The Subcommittee on Risk Management and Specialty Crops met pursuant to notice on February 28, 1995, to consider H.R. 618, the Commodity Futures Trading Commission Act of 1995.

Chairman Ewing called the meeting to order for the purpose of considering H.R. 618 and the Committee Clerk established that a quorum was present. The Committee Counsel explained H.R. 618 and indicated to the Subcommittee that a substantially identical bill, S. 178, had passed the Senate February 10, 1995, had been received in the House and was being held at the Speaker's desk. On motion of Mr. Rose, the Subcommittee ordered the bill, H.R. 618, favorably reported to the full Committee by voice vote and in the presence of a quorum.

III. FULL COMMITTEE CONSIDERATION

The Committee on Agriculture met, pursuant to notice, on April 4, 1995. Chairman Roberts called the meeting to order in the presence of a quorum for the consideration of H.R. 618, the Commodity Futures Trading Commission Reauthorization Act of 1995. Mr. de la Garza submitted an opening statement for the record.

Mr. Ewing was recognized to deliver an opening statement and to explain the bill.

Mr. Ewing moved that the Committee adopt the bill. By a voice vote, and in the presence of a quorum, the Committee ordered the bill to be reported to the House with the recommendation that the bill do pass and then adjourned.

REPORTING THE BILL—ROLL CALL VOTES

No amendments were offered to the bill in Committee. In compliance with clause 2(l)(2) of rule XI of the House of Representatives, the bill was reported with a quorum actually present. There was no motion or request for a recorded vote.

BUDGET ACT COMPLIANCE (SECTION 308 AND SECTION 403)

The provisions of clause 2(l)(3)(B) of Rule XI of the Rules of the House of Representatives and section 308(a) of the Congressional Budget Act of 1974 (relating to estimates of new budget authority, new spending authority, or new credit authority, or increased or decreased revenues or tax expenditures) are not considered applicable. The estimate and comparison required to be prepared by the Director of the Congressional Budget Office under clause 2(l)(C)(3) of Rule XI of the Rules of the House of Representatives and section 403 of the Congressional Budget Act of 1974 submitted to the Committee prior to the filing of this report are as follows:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, April 5, 1995.

Hon. PAT ROBERTS,
Chairman, Committee on Agriculture,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 618, the Commodities Futures Trading Commission Reauthorization Act of 1995.

Enactment of H.R. 618 would not affect direct spending or receipts. Therefore, pay-as-you-go procedures would not apply to the bill.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

JAMES L. BLUM,
(For June E. O'Neill).

Enclosure.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill number: H.R. 618.
2. Bill title: Commodities Futures Trading Commission Reauthorization Act of 1995.
3. Bill status: As ordered reported by the House Committee on Agriculture on April 4, 1995.
4. Bill purpose: H.R. 618 would authorize the appropriation of such sums as are necessary for the Commodities Futures Trading Commission (CFTC) for the fiscal years 1995–2000.
5. Estimated cost to the Federal Government: Funds for CFTC have been appropriated for 1995, and the estimate assumes that no additional appropriation will be necessary for this fiscal year. Because the bill does not provide a specific authorization, the table shows two alternative authorization levels for fiscal years 1996–2000—the 1995 appropriation for CFTC without adjustment for anticipated inflation and the 1995 appropriation with adjustment for inflation. Outlay estimates are based on historical spending rates for this program and assume that appropriations will be provided before the start of each fiscal year.

[By fiscal year, in millions of dollars]

	1995	1996	1997	1998	1999	2000
Without adjustment for inflation:						
Estimated Authorization Level	0	49	49	49	49	49
Estimated Outlays	0	42	49	49	49	49
With adjustment for inflation:						
Estimated Authorization Level	0	51	53	56	58	60
Estimated Outlays	0	44	53	55	57	60

The costs of this bill fall within budget function 370.

6. Comparison with spending under current law: The fiscal year 1995 appropriation for CFTC activities is $49 million. If appropriations were to remain at the 1995 level, projected spending would not exceed the amount under current law. If appropriations were to increase each year to reflect anticipated inflation, budget authority and outlays would exceed the levels under current law by amounts growing to $11 million in 2000.

7. Pay-as-you-go considerations: None.

8. Estimated cost to State and local governments: None.

9. Estimate comparison: None.

10. Previous CBO estimate: On February 1, 1995, CBO provided a cost estimate for S. 178, the CFTC Reauthorization Act of 1995, as ordered reported by the Senate Committee on Agriculture, Nutrition, and Forestry on February 1, 1995. Because the two bills are identical, the cost estimates are the same.

11. Estimate prepared by: John Webb.

12. Estimate approved by: Paul N. Van de Water, Assistant Director for Budget Analysis.

Inflationary Impact Statement

Pursuant to clause 2(l)(4) of Rule XI of the Rules of the House of Representatives, the Committee estimates that enactment of H.R. 618, will have no inflationary impact on the national economy.

Oversight Statement

No summary of oversight findings and recommendations made by the Committee on Government Reform and Oversight under clause 2(l)(3)(D) of Rule XI of the Rules of the House of Representatives was available to the Committee with reference to the subject matter specifically addressed by H.R. 618.

No specific oversight activities other than the hearings detailed in this report were conducted by the Committee within the definition of clause 2(b)(1) of Rule X of the Rules of the House of Representatives.

Changes in Existing Law

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman):

COMMODITY EXCHANGE ACT

SEC. 1(a) * * *

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SEC. 12(a) * * *

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【(d) There are authorized to be appropriated to carry out this Act—

(1) $53,000,000 for fiscal year 1993; and

(2) $60,000,000 for fiscal year 1994.】

(d) There are authorized to be appropriated such sums as are necessary for each of the fiscal years 1995 through 2000.

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