2001 Pennsylvania Avenue NW
Suite 600 | Washington, DC 20006
T 202 466 5460
F 202 296 3184

January 24, 2017

The President
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

FIA[1] appreciates the attention your administration is devoting to the impact of financial regulation on the economy. After the financial crisis, the Dodd-Frank Act has generated more than 22,000 pages of regulations and fundamentally changed the regulatory structure of financial markets. Now is the appropriate time to review and simplify the regulatory framework developed following the financial crisis and determine whether these regulations are in fact meeting their public objectives.

While elements of Dodd-Frank may warrant repeal, others simply require reform. In particular, Title VII, which created the framework for the regulation and clearing of the swaps market, has led to both improvements to the swaps and futures markets (collectively, derivatives market) as well as significant challenges.

Derivatives serve an important purpose in our economy by allowing manufacturers, airlines, pension funds, ranchers and farmers to manage risk and discover market prices. A cornerstone of these regulated markets is centralized clearing, which requires clearinghouses and their members to stand behind the performance of each trade and contribute to a rainy-day fund to protect against defaults. This system of guarantees ensures the resilience and financial stability of these markets as evidenced by the fact that no U.S. clearinghouse has ever defaulted on its guarantee.

Regulation is not new to the derivatives markets. In fact, futures contracts have been subject to regulatory oversight, exchange trading and clearing for decades before the financial crisis. What is new is that Dodd-Frank extended regulation and the concepts of central clearing and regulated trade execution beyond futures to certain swaps.

Exchanges, clearinghouses and their members, and customers all have made considerable efforts to reduce risk and increase transparency for the derivatives markets. Progress has been made on improving the safety and soundness of these markets. Seventy-five percent of interest rate and credit default swap transactions are now cleared, compared to only fifteen percent before the crisis.

[1] FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets. FIA's membership includes clearing members, exchanges, clearinghouses, trading firms, and agricultural, commodity and financial customers from more than 48 countries.

With this progress comes challenges. While each new regulation has been implemented individually, their effects are cumulative, and only now are the impact of these rules and the totality of their costs being born by the private sector. This is the time to take stock of how these regulations are functioning in practice rather than concept. Why is volume and growth stagnating? Why is there consolidation among members of this industry such that risk is now more concentrated? Why are commercial enterprises that had nothing to do with the crisis being saddled with dozens of new rules?

The key driver of these concerning trends is the cumulative regulatory burden on this sector, which appears to be harming competition, reducing market liquidity and stifling innovation and growth.

As policymakers consider ways to promote healthy markets, FIA recommends the following:

1. **Wholesale Review of Regulations**
   FIA requests that you initiate a comprehensive review of all financial reform regulation immediately. Similar to the European Union, which is in the midst of reviewing its financial reform legislation, policymakers in the U.S. would benefit from an analysis of these financial reform policies—complete with public input—that aims to improve and simplify these regulations. For their part, congressional committees have conducted valuable oversight and proposed positive regulatory reforms over the past few years, and we believe their future work will be enhanced by such a review.

2. **Smart Regulation and Enforcement**
   In conducting such review, policymakers should ensure that rules are properly tailored to the risk of the activity posed and reflect the public's input so as to keep markets safe without stifling growth. Policymakers also should conduct thoughtful cost-benefit analyses before implementing rules, striving to use both qualitative and quantitative data to justify the rule. Such smart regulation is benefitted by strong enforcement that focuses on unlawful acts that harm investors and markets, rather than technical violations caused by the complexities of regulation.

3. **Globally Accessible Markets**
   In order for customers in the United States to utilize these risk markets wherever they may be located, regulators must create a regime that allows for cross-border access without overly burdensome and duplicative regulations. U.S. regulators have an opportunity to lead globally by ensuring a level playing field of the highest standards. We encourage U.S. regulators to promote competitiveness by eliminating duplicative rules that serve as barriers to access and recognizing jurisdictions where comparable rules apply.

4. **Focus on Innovation and Competition**
   Regulators are tasked not only with preventing fraud, manipulation, and disruptive market events, but also with promoting responsible innovation and fair competition for market participants. Rules should be crafted in a way that not only protects the marketplace but also incentivizes innovation and healthy market behavior. Importantly, policies that promote technological innovation not only make markets more efficient and accessible but can lead to public benefits through improved tools for oversight and infrastructure security.

Derivatives markets play a critical role in our national economy. Our markets exist for the purpose of allowing businesses to hedge against uncertainty and volatility and focus their attention on growth and innovation. We look forward to working with you as policymakers consider how to best reform Dodd-Frank in a coordinated manner that benefits the markets and its users. Ensuring that these risk management tools remain available, affordable, and accessible for businesses is essential.

Most respectfully,

Walt L. Lukken

Walt L. Lukken
President and CEO

Cc: The Honorable Pat Roberts (Chairman, Senate Committee on Agriculture, Nutrition & Forestry)
The Honorable Mike Crapo (Chairman, Senate Committee on Banking, Housing & Urban Affairs)
The Honorable Debbie Stabenow (Ranking Member, Senate Committee on Agriculture, Nutrition & Forestry)
The Honorable Sherrod Brown (Ranking Member, Senate Committee on Banking, Housing & Urban Affairs)
The Honorable Mike Conaway (Chairman, House Committee on Agriculture)
The Honorable Jeb Hensarling (Chairman, House Committee on Financial Services)
The Honorable Collin Peterson (Ranking Member, House Committee on Agriculture)
The Honorable Maxine Waters (Ranking Member, House Committee on Financial Services)
The Honorable Christopher Giancarlo (Acting Chairman, Commodity Futures Trading Commission)
The Honorable Sharon Bowen (Commissioner, Commodity Futures Trading Commission)
The Honorable Tim Massad (Commissioner, Commodity Futures Trading Commission)
The Honorable Michael Piwowar (Commissioner, Securities and Exchange Commission)
The Honorable Kara Stein (Commissioner, Securities and Exchange Commission)