U.S. House of Representatives
Committee on Agriculture
Room 1301, Longworth House Office Building
Washington, DC 20515–6001
(202) 225–2171
(202) 225–0917 FAX



December 20, 2011

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

Dear Chairman Gensler:

As you know, the bankruptcy of MF Global and its impact on customer funds have greatly shaken customer confidence in current segregation models used to protect customer funds with regard to futures trading. For the past several decades, segregation procedures have produced a record where not a single customer lost a single dollar of customer funds due to the bankruptcy of a futures commission merchant. That record of achievement has been largely erased by the actions of MF Global.

As the Commission continues its investigation of the events surrounding MF Global's bankruptcy and the Committee continues its own examination, we stand ready to receive the Commission's report on what lessons have been learned in the wake of MF Global's bankruptcy and any recommendations the Commission may make that will restore confidence in the safety and security of customer funds held in segregated futures accounts. We cannot let one company's actions successfully tar the sterling reputation the futures industry has enjoyed for years.

To that end, I am writing to express our interest in seeing the Commission take into account the lessons of MF Global as you proceed with respect to future regulatory and administrative matters, particularly with regard to implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Just as futures contracts are widely traded and cleared on exchanges and clearinghouses respectively, the Dodd-Frank Act envisions more and more swaps being executed on exchanges and swap execution facilities and cleared at clearinghouses. And like futures customers, swap counterparties are wondering what protections they will have available to them with regard to the funds or other property they provide to margin, guarantee, or secure their obligations in the trading and clearing of swaps.

The swaps market is vastly larger than the regulated futures market. The bankruptcy of Lehman Brothers serves as a prime example of what can happen to counterparty collateral that is given to and held by a financial firm that collapses. As the Dodd-Frank Act will lead to more swaps being cleared, and consequently more collateral or margin being posted for those swaps, it is critically important that protections are in place to ensure that counterparty collateral or margin will not become lost or tied up in the event of a dealer bankruptcy. If our current segregation model for futures could not protect customer funds with regard to MF Global, how can we expect it to protect counterparty collateral for the significantly larger swaps market in the event of another large dealer bankruptcy? Without sufficient protections in place, confidence in the Dodd-Frank Act's system of swap clearing will be undermined before it gets started.

I appreciate your consideration of our views and look forward to working with you and the other Commissioners on this matter.

Sincerely,

Collin C. Peterson

Collin Peterson
Ranking Member

cc: The Honorable Jill E. Sommers
The Honorable Bart Chilton
The Honorable Scott D. O'Malia
The Honorable Mark P. Wetjen