

Advisory Committee of CFTC Suggests an Abandonment of Option Limits

By Xiaolin Ma, LL.M. Candidate 2016 | March 7, 2016

On February 25, 2016, the Energy and Environmental Markets Advisory Committee (EEMAC) of the Commodity Futures Trading Commission (CFTC) released [a report](#), advising the CFTC to abandon its plan for position limits on the number of futures contracts a trader can hold on certain commodities such as oil and natural gas. The EEMAC was created under the 2010 Dodd Frank Act and [functions](#) “to advise the Commission on important new developments in energy and environmental derivatives markets that may raise new regulatory issues, and the appropriate regulatory response to ensure market integrity and competition, and protect consumers.”

EEMAC members approved the report in a vote of 8-1. Tyson Slocum, director of the Public Citizen energy program, cast the dissenting vote and also issued [a dissenting report](#). As Tyson Slocum pointed out in an [interview](#), the majority report issued by the EEMAC “ignores the large body of evidence and research showing the clear need for position limits” and “reflect[s] the inadequate professional diversity of a committee whose membership is heavily weighted in favor of Wall Street and big energy interests.”

In fact, it is not difficult to see the pattern of “inadequate professional diversity” as mentioned by Tyson Slocum in his [comment](#). “eight members who voted for the majority report were two representatives of the oil and gas production industry (ConocoPhillips and the Natural Gas Supply Association), one trade association representing investor-owned electric utilities (Edison Electric Institute), two for-profit exchanges and clearinghouses for commodity and financial markets (ICE and CME), two proprietary traders (Vectra Capital and Morgan Stanley/Futures Industry Association), and one academic affiliated with commodity trading interests.” Senator Elizabeth Warren has also [asked](#) the commissioner of the CFTC to withdraw the report on the basis that the EEMAC is “an industry insider group that produced a product reflecting the highest hopes of the industry for as little regulation as possible.”

The heated discussion arising from this report represents another skirmish in the ongoing [battle](#) between regulators and Wall Street. Regulators point to speculation in the commodities market and its harmful effect on prices, arguing that more option limits are needed. On the other hand, Wall Street insiders are trying to avoid the potential individual caps on derivatives contracts in any particular commodity. Although CFTC has not yet commented on this report, Timothy Massad, chairman of CFTC chimed in, [commenting](#) that “it strikes me a bit like saying you're against speed limits because they may make you late for work.” If position-limits rules are truly abandoned, it will be a major victory for Wall Street traders in the commodities markets.