ISDA® FIA MANAGED FUNDS ASSOCIATION

INVESTMENT COMPANY INSTITUTE® SIFMA® Securities Industry and Financial Markets Association THE FINANCIAL SERVICES ROUNDTABLE

June 18, 2008

Dear Senators and Congressmen:

We represent participants in America's financial services sector, including banks and investment firms, investment companies, pension funds, individual retirement accounts, manufacturers and retailers. Our sector of the economy produces 8% of America's GDP and employs 5% of our workers. In fact, the companies and individuals we represent can be found in every city and town across the US.

In recent weeks, you may have heard complaints about speculation in the energy and commodity markets. We are writing to make two basic points:

First, liquid and efficient energy and commodities markets are essential to the economy, and speculators play a crucial role in these markets. As discussed in more detail below, speculators take the risks hedgers want to avoid. Without speculation, consumers would likely pay more for energy and commodities.

Second, some of the drastic proposals to revamp futures market regulation now being discussed would be counter-productive. Those proposals range from an outright ban on speculation in commodities and energy futures markets to higher margin requirements to revocation of important international agreements on cooperation with foreign regulators. They would drive needed speculative capital from our markets to other trading venues that are less accessible to U.S. regulators or generally less transparent. These proposals do not offer realistic responses to markets that are global and linked more and more everyday by nano-second trading technology.

Commodities and energy derivatives markets (including both over-the-counter and exchange traded) provide a valuable means by which businesses and individuals can hedge the risk of adverse movements in commodity prices. America's derivatives exchanges are the largest in the world, and, in recent years, both on and off exchange derivative activity in the U.S. has seen tremendous growth.

These markets are composed of both "hedgers," who are persons seeking to hedge some sort of financial or other risk, and "speculators," who are persons willing to take on that risk in the hope of making a profit. Some hedgers seek to mitigate the risk of price increases and others seek protection from prices falling. Thus hedgers can be found on both sides of the market. Similarly, speculators are not uniformly buyers or sellers in the market, but can also be found on both sides of the market. Speculators perform a very important market function in providing liquidity to the market, making it possible for hedgers to efficiently enter and exit the market and reducing the bid-offer spreads and the transaction costs of all market participants. Both hedgers and speculators are needed for a market to serve its price-discovery function.

Unfortunately, some have confused speculation with manipulation or other abusive market practices. Blaming speculation or any specific trading practice for rising or falling commodity and energy prices without real evidence of wrongdoing is misguided. Those kinds of charges create the very real possibility that speculators will choose to abandon these markets and use their investment dollars elsewhere. Such an exodus threatens the healthy functioning of the markets and the economy.

Our futures markets and commodity regulators already have and utilize significant regulatory authority in the form of speculative position limits, large trader reporting requirements, and special call authority, as well as

market surveillance resources and enforcement powers to prevent, detect and prosecute attempted manipulations. With regard to energy prices in particular, Congress has been active in recent years establishing new authority for a number of federal regulators. For instance in 2005 Congress increased the authority of the Federal Energy Regulatory Commission to pursue wrongdoing in the markets for electricity and natural gas as part of the Energy Policy Act. In 2007 Congress gave the Federal Trade Commission authority to pursue fraud and manipulation in the wholesale market for petroleum products as part of the Energy Independence and Security Act. And just last month Congress substantially increased the Commodity Futures Trading Commission's oversight and regulation of electronic commercial markets as part of the Farm Bill.

In addition to allegations of excess speculation, some have focused on the role of institutional investors in commodity and energy prices. These include investors such as public and private pension funds, investment companies, and commodity index tracking funds. These investors allow average middle class Americans to hedge the risk of rising prices by giving them exposure to commodities, which serves as a hedge against inflation risk. Because of the ability, for example, to protect persons such as retirees or prospective retirees from seeing their assets decline, these types of investments have increased in popularity in recent years.

Some have confused these trading opportunities with rising commodity prices, and sought to limit the ability of institutional investors to access derivatives. If successful these efforts would substantially harm the ability of Americans to protect themselves against inflation and would wrongly limit their investment options in general. Before Congress takes any action to limit the ability of average Americans to protect themselves from inflation in this way, it should make certain that the alleged adverse market effects of these kinds of investments have a real basis in fact.

We applaud Congress' efforts to explore abusive market practices. We fully support efforts to ensure America's commodity markets remain fair, liquid and competitive. To that end we endorse efforts to increase funding for the CFTC. However, we strongly urge caution when it comes to the reform of these markets. Hastily enacted initiatives threaten to undermine these markets at the very time they are most needed and damage them to the detriment of both America's financial competitiveness and our overall economic health. Congress should take great care to ensure that the unintended consequences of any proposed market reforms will not outweigh any potential perceived benefits. A careful, studied and measured approach is critical to these efforts.

Thank you for your consideration.

Sincerely,

International Swaps and Derivatives Association

Futures Industry Association

Managed Funds Association

Investment Company Institute

Securities Industry and Financial Markets Association

The Financial Services Roundtable