

**Testimony of Chairman Timothy G. Massad before the
U.S. House Committee on Financial Services
Washington, DC
December 8, 2015**

Thank you Chairman Hensarling, Ranking Member Waters and distinguished members of this Committee. I appreciate the opportunity to testify today.

You have asked me to set forth my views on the agenda, operations and structure of the Financial Stability Oversight Council (FSOC), and to discuss the perspective I bring to its deliberations as one of ten voting members.

Therefore, today I would like to talk about how my role as Chairman of the Commodity Futures Trading Commission (CFTC) informs my approach to the FSOC. I would also like to highlight a few issues that are common priorities for the Commission and for the Council.

The CFTC is responsible for overseeing the U.S. derivatives markets. This includes the commodity futures and related options markets and, as a result of the Dodd-Frank Act, the vast majority of the swaps market. Although most Americans do not participate in these markets directly, they are vital to our economy, affecting the prices we all pay for food, energy, and other goods and services. They do this by enabling businesses of all kinds to hedge commercial risk, whether a farmer hedging the price of his crop, a manufacturer hedging the price of supplies, or an exporter hedging foreign exchange risk.

For these markets to work well, sensible regulation is essential. This is a lesson we learned in 2008, when a lack of oversight of the swaps market led to a buildup of excessive risk that contributed to

the intensity of the worst global financial crisis since the Great Depression. That crisis, which had many causes, cost our economy more than 8 million jobs, wiped out the savings of millions of Americans and led to a foreclosure crisis that cost millions of families their homes.

My perspective as a member of the FSOC is shaped by my responsibilities as CFTC Chairman. The laws we implement are intended to deter and prevent fraud and manipulation in our markets, to promote financial integrity in transactions and the institutions we oversee, to avoid systemic risk, to protect customers, and to encourage innovation and competition.

I would like to highlight a few of the CFTC's priorities that are particularly relevant to the FSOC. The first area is the implementation of a regulatory framework for over-the-counter swaps. The Dodd-Frank Act codified the four basic reforms agreed to by the leaders of the G-20 nations—central clearing of standardized swaps, transparent trading on regulated platforms, oversight of major market players and regular reporting. We have made great progress in implementing these reforms. In particular, with respect to central clearing, today approximately 75 percent of swap transactions in our markets are being cleared, as compared to only about 15 percent in 2007. Other financial regulators also have responsibilities in the area of swaps reform, and the FSOC provides a useful way for us to communicate and coordinate.

A second area is the regulation of central clearinghouses. While central clearing mitigates risk, it does not eliminate it. So we're focused on making sure clearinghouses are strong and resilient. This is another focus for FSOC, as highlighted in its recent annual report.

While we remain the primary supervisor of the clearinghouses in the derivatives markets, the Federal Reserve and the FDIC have responsibilities as well. We work collaboratively on these important

issues – and we also work with the Securities and Exchange Commission (SEC), which has primary oversight of clearing agencies in its markets.

Domestically, the CFTC has undertaken a major overhaul of our clearinghouse oversight, substantially strengthened risk management, and increased transparency. We are also leading important work that is taking place on clearinghouse resiliency efforts internationally -- working with foreign regulators and other FSOC members.

Another priority of CFTC is strong, sound and resilient markets. Here, the FSOC also plays an important role in bringing agencies together. For example, following the volatility in the Treasury market on October 15, 2014, the FSOC served as a good forum to share information. Shortly thereafter, CFTC staff presented our analysis of what took place in the Treasury futures market to the Council. And Commission staff subsequently worked with the Department of Treasury, the Board of Governors of the Federal Reserve, the SEC and the Federal Reserve Bank of New York to prepare a report analyzing what happened on that day and its relation to the recent evolution of the Treasury market. We are continuing to work together to look at issues pertaining to volatility, liquidity and the oversight of these markets, including the availability of data and the growth of automated trading.

In addition, cybersecurity is one of our agency's top priorities. I believe it is one of the greatest risks to our financial system today. The FSOC plays an important role in facilitating dialogue and cooperation among regulators in addressing this very important issue.

Another area of focus for the CFTC over the last few years that is important to FSOC is the oversight of benchmarks. Benchmark integrity is vital to our financial system, which is why we have

made this a priority issue in our enforcement efforts. We brought the first case against a global bank concerning LIBOR manipulation in 2012, and we have imposed penalties on many of the world's largest banking institutions for similar actions. We have also actively supported the development of voluntary principles for the administration of benchmarks to ensure integrity and transparency.

I believe that one of the most valuable functions of the FSOC is simply to bring together the regulators and agencies that have responsibilities for our financial markets and institutions on a regular basis. By sharing information and ideas, I believe we are in a better position to identify and address potential systemic risks – and better serve the American people.

Mr. Chairman, thank you very much for the opportunity to share my views before this Committee today.