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“CFTC Reauthorization: Stakeholder Perspectives”

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Chairman Thompson, Ranking Member Craig, and Members of the Committee, thank you for the opportunity to testify. I am the head of the global clearing business for Goldman Sachs and the co-head of its global futures business. I am testifying as Chair of the Futures Industry Association (FIA), the leading global trade organization for the futures, options and centrally cleared derivatives markets.

There is tremendous change facing the cleared derivatives markets today, especially when compared to 2008 when the CFTC was last reauthorized. FIA strongly supports the reauthorization of the CFTC, as it reinforces the agency’s mission and central role in safeguarding markets critical to the global economy. I’ve had the privilege of interacting extensively with the Commission over many years, through FIA, on behalf of Goldman Sachs and as Chair of the CFTC’s Market Risk Advisory Committee and believe that with adequate resources it is well suited for the challenges ahead.

As the Committee undertakes this process, I appreciate the opportunity to highlight important recommendations that we hope the Committee and the Commission will consider.

The Role of Futures Commission Merchants (FCMs)

First, I will provide the Committee with an overview of the important role clearing members, or Futures Commission Merchants (FCMs), play in global derivatives markets. Through their connectivity to exchanges and clearinghouses around the world, clearing members provide customers, including agricultural and energy end users, with access to global markets to manage the risks of their operations. For example, many FIA members participate in clearinghouses across dozens of jurisdictions to ensure their clients can transact in any region in which they do business.

Clearing members are intermediaries, which means they stand between an end user and the clearinghouse, and act as the first and the last line of defense in fostering stability in cleared derivatives markets. These intermediaries act as a first line of defense by underwriting the risk of a client’s portfolio before it ever reaches the clearinghouse and monitoring that risk on an ongoing basis. This includes determining the appropriateness and suitability of leveraged products, monitoring clients for money laundering and other risks to market integrity, collecting

and safeguarding customer margin, and guaranteeing the performance of clients to the clearinghouse.

Perhaps less known is that clearing members are also the last line of defense, in the sense that they contribute substantially all the financial resources in the default funds that backstop the clearinghouses. These default funds are rarely used, but they are essential for absorbing losses in the event of a major market disruption or a default by a market participant and preventing those losses from cascading into a financial crisis.

Looking at just the five derivatives clearinghouses that operate in the US, we can see that clearing members contributed \$35.7 billion to their default funds as of June 2025, the most recent data available. That was equivalent to 98.5% of all the money in those default funds. If we include three other major international clearinghouses that are highly important to end users in the US, namely Eurex, ICE Clear Europe and LCH Ltd, we see the same picture. As of June 2025, clearing members contributed \$61 billion in total to this group of eight clearinghouses, equivalent to 98.4% of the total amounts in those default funds.

Clearing members also hold a significant amount of regulatory capital, which serves as an additional layer of protection to the system that helps ensure clearing members themselves can withstand a severe market disruption. The total amount of capital held by the clearing members regulated by the CFTC was \$169 billion as of September 2025.

Together, these financial resources reduce the risk that a major market event or default creates wider market contagion, which can put financial markets and customer assets at risk.

Source: FIA CCP Tracker. Data as of June 2025

We support innovation and believe there is tremendous potential in technology to benefit all market participants. We also believe there are valuable and time-tested risk management traits of our current market structure that can play an important role in the integration of traditional and novel products and platforms. Ensuring risk management goes hand in hand with innovation will ensure the broadest participation across both retail, end users and institutional investors, and the issues I'd like to raise today are to that end.

Regulated and well capitalized intermediaries play an essential role in protecting customers and the stability of the market ecosystem

First, many of the safeguards that exist in the markets today are “behind the scenes” but critical to customer protections and market stability. Futures Commission Merchants (FCMs) are risk managers that play a central role in ensuring the resiliency of the clearing system and preventing losses from triggering a domino effect that can threaten the stability of the markets. Like regulated exchanges and clearinghouses, well capitalized FCMs are a key component of the regulatory architecture that have served the derivatives markets well. FCMs are CFTC regulated intermediaries that stand between end users and the clearinghouses by guaranteeing the

performance of clients to the clearinghouse. In addition, FCMs safeguard customer assets, monitor for money laundering and other risks to market integrity and provide substantially all the financial resources in the default funds that backstop the clearinghouses.

To the degree trading platforms offer direct access models where participants can access the exchange or clearinghouse directly, the CFTC should consider whether the regulatory environment may also need to evolve to sufficiently safeguard markets and market participants. This will be especially important as retail investors are provided direct clearing access on a leveraged basis.

Stable, robust margin levels and a well-calibrated capital regime will support access to global markets for end users and investors

In 2023, following the Russian invasion of Ukraine, I testified before this Committee regarding volatility in the commodity derivative markets and how end users can be better prepared to weather market turbulence. I also spoke to the fact that end users are finding it harder to secure and sustain capacity from their FCMs to clear the full extent of their trading volume. I suggested two solutions at that time that remain necessary today: adequate clearinghouse margin levels and a well-calibrated bank capital regime.

Clearinghouses collect “margin” for the futures contracts that energy and agricultural producers use to hedge against fluctuations in energy and food prices. Margin is the capital collected in conjunction with those contracts to protect against default. In 2023, I highlighted how important it is to ensure margin levels are robust and stable over time so that end users, such as ranchers and farmers, are not exposed to dramatic spikes in their margin payments during market volatility, which in turn helps ensure consumer prices remain stable. Additionally, inadequate margin level requirements present risks that are absorbed by FCMs – both because of the immense financial resources that FCMs bring to bear in supporting the resilience of the clearing system and because FCMs often cover margin shortfalls through margin add-ons that clearinghouses call from them. Margin adequacy is therefore closely tied to the amount of clearing capacity that clearing members can make available for end users. Despite the consensus that emerged in recommendations to address margin adequacy by the CFTC’s Market Risk Advisory Committee in 2021, there has been little progress. We believe the CFTC can do more to ensure the adequacy of clearinghouse margin models to reduce the negative effects of market volatility on end users and increase their access to clearing.

Lastly, bank capital rules dictate the amount of capital clearing members must hold. Despite an intentional regulatory push towards clearing, the previously proposed Basel III Endgame capital rule took a punitive approach that would further limit clearing members’ ability to provide capacity to the markets. The proposed approach was also punitive relative to the international standards, placing US banks at a competitive disadvantage in providing clearing services. A re-proposal of Basel III Endgame is expected early next year and provides an opportunity to ensure

that the bank capital regime is appropriately calibrated to help support the expansion of clearing, rather than to constrain capacity as we see today.

As more retail leveraged transactions enter CFTC markets, Congress should consider safeguards for institutional investors and hedgers

Perhaps one of the most notable changes in the CFTC's mission over the last 20 years is that it may now oversee significantly more leveraged retail investor trading volumes than ever before. FIA supports efforts underway by Congress to clarify and strengthen the CFTC's authority over digital commodities to help ensure retail investors are protected.

A unique aspect of the derivatives ecosystem is that in the event a clearing member defaults, losses are mutually shared by the remaining clearing members in what is known as default fund loss mutualization. With the increase in leveraged retail transactions, clearing members representing institutional end users will now participate in the same default fund as retail investors. FIA recommends that Congress consider authorizing the CFTC to issue rules or guidance to require that financial resources that would be used to manage the default involving leveraged retail transactions be segregated from other default resources in the clearinghouse. Such separation could mitigate systemic risk concerns and prevent contagion from spreading between retail investors trading novel products and end users and other traditional market participants accessing the markets for hedging purposes.

Portfolio margining incentivizes hedging, promotes market liquidity and fosters greater coordination between CFTC and SEC

Next, FIA supports provisions in the CLARITY Act intended to ensure risk offsets are recognized across both traditional and digital asset products that span CFTC and SEC jurisdiction in both the margin and bank capital framework. Recognizing such offsets will incentivize hedging activity while promoting harmonization between the CFTC and SEC.

Addressing conflicts of interest in vertically integrated models is important to uphold market integrity, protect market stability and instill confidence in US markets

Similarly, FIA supports provisions in the CLARITY Act to authorize the CFTC to carry out a rulemaking to mitigate potential conflicts of interest for vertically integrated market participants and ensure retail investors remain protected. In recent years, there has been a distinct trend in derivatives and spot digital asset markets toward vertically integrated business models. For example, while the futures markets are accustomed to exchanges and clearinghouses under common ownership, many new models are structured to extend the "vertical" to include FCMs and other intermediaries. Further, as envisioned by the CLARITY Act, these verticals may grow with the addition of "digital commodity" exchanges and intermediaries that will be registered with the CFTC to provide services in spot cryptocurrency markets.

These new models may increase the potential – both in practice and perception -- of substantial conflicts of interest across the mix of commercial objectives, regulatory responsibilities and risk management processes under one roof. Rulemaking should establish requirements for the identification, mitigation, and resolution of conflicts of interest as they may arise in the context of vertically integrated market structures.

The “Griffin Fix” will strengthen customer protections in bankruptcy

A key measure that has been consistently considered in previous reauthorization bills and passed out of both the House and Senate Agriculture Committees with bipartisan support is the "Griffin fix." FIA supports inclusion of the Griffin fix as it is designed to strengthen customer protections in bankruptcy proceedings involving FCMs by providing legislative certainty for the CFTC's rulemaking authority to ensure customers have priority if there is a shortfall in segregated funds. FIA believes there is broad stakeholder support for this provision, which benefits FCM customers including farmers, ranchers, energy producers, and other end users.

Conclusion

FIA greatly appreciates the Committee's interest in these topics that affect global derivatives markets. It is an honor to be with you today and I look forward to answering your questions.