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Opening Statement of Commissioner Brian Quintenz before the CFTC Market Risk Advisory Committee

January 31, 2018

Thank you, Commissioner Behnam, for convening today's meeting and for your sponsorship of the Market Risk Advisory Committee (MRAC). I look forward to a thoughtful discussion of the process by which exchanges may list contracts for new or novel products and the CFTC's role in that process.

Importance of Product Innovation

I agree with Chairman Giancarlo's long held perspective on regulation's ability to foster financial market innovation. I believe that the self-certification of new financial products can play an important role in realizing that philosophy. Specifically, the self-certification process ensures that the market's introduction of new products is not delayed by regulators' political considerations. It reflects the government providing the market with the freedom and space to innovate outside of Washington bureaucracy. I think we all benefit from that free market approach.

Market Risk

Let me take a moment to discuss the concept of "risk" – a term that gets thrown around broadly, and mostly with negative connotation, in connection with our financial markets. For those who want regulators to remove all financial risk from the markets, I have news for you. That cannot and will not happen. Every element of the financial system has and always will have risk. Our markets' ability to empower risk takers, provide feedback on value creation vis a vis its riskiness, and transfer risk to those most willing and able to bear it are what make them the envy of the world. I would seek to preserve those market functions, not bureaucratize them.

Other Tools of Market Oversight Beyond Self Certification

While we are focusing on the self-certification process today, I must note that self-certification is where a new contract's regulatory life begins, not

where it ends. After a contract's self-certification and its initial listing, the CFTC will then surveil that product's trading and clearing activity on a daily basis, review every new rule issued by exchanges and clearinghouses affecting that product, and regularly perform market-wide and clearinghouse-level stress tests incorporating that product's margin sufficiency.

In addition to supervision by the CFTC, the trading of new contracts is subject to oversight by the exchanges to ensure that the contract complies with the core principles set forth in the Commodity Exchange Act and CFTC regulations, including that the contract is not readily susceptible to manipulation¹ and is subject to rules ensuring the contract's financial integrity.²

Further, as to risks assumed by Futures Commission Merchants (FCM), FCM's positions are continually monitored, their trading activity is subject to potential trading halts, and their risk management policies are reviewed on a regular basis.³

Public Concerns

Regarding public input, the CFTC is and should always be receptive to hearing the public's concerns regarding a new product and the process by which it was listed. I am pleased that this MRAC meeting has been convened to provide a forum to discuss any concerns that the public may have with the process for listing new and novel products.

I look forward to hearing from today's participants about:

the types of risks that exchanges consider when deciding to list a new product;

how exchanges assess whether a cash market is sufficiently transparent and liquid to support accurate and fair pricing for related derivatives products; and

whether exchanges and clearinghouses have adjusted their risk management practices following particular product launches.

In closing, I would like to note that the Technology Advisory Committee is planning on holding its initial meeting on February 14th. We hope that you can join us then for discussions regarding blockchain, cryptocurrencies, automated trading and cybersecurity, among other issues.

Thank you again to Commissioner and the MRAC members for today's meeting.

[1](#) DCM Core Principle 3 (7 USC § 7(d)(3)), CFTC regulation 38.200; SEF Core Principle 3 (7 USC § 7b-3(f)(3)), CFTC regulation 37.300).

[2](#) DCM Core Principle 11 (7 USC § 7(d)(11)), CFTC regulation 38.602; SEF Core Principle 7 (7 USC § 7b-3(f)(7)), CFTC regulation 37.700.

[3](#) CFTC Regulations 38.255, 38.601, 38.604, and 39.13(h)(5)

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