

SPEECHES & TESTIMONY

Remarks of Chairman J. Christopher Giancarlo at 44th Annual International Futures Industry Conference

“Improving the Past, Tackling the Present, and Advancing to a Digital Market Future”

March 13, 2019

INTRODUCTION

Thank you, Walt. Good morning everyone.

It is an honor to speak to you in what is almost certainly my last appearance here as CFTC Chairman.

In the next hour, Heath Tarbert, the President’s nominee to succeed me, will testify in Washington before the Senate Agriculture Committee. I am sure he will do exceptionally well. I expect his confirmation and arrival at the Commission sometime this summer. I know Heath Tarbert and I know he will make a superb CFTC Chairman.

In fact, it was exactly five years ago this month that I first testified before the Ag Committee concerning my nomination to serve on the Commission.

I knew that, if I was confirmed, my tenure would be transitional. It would bridge the last years of the Obama Administration and the beginning years of the next Administration. I was determined to serve only one five year term. What I could not know was who would be the next President and what that would mean for me.

I found out what it meant two years ago here in Boca. On the Tuesday evening of the Conference, President Trump announced his intention to nominate me as CFTC Chairman. The next morning, I stood at this same podium and set out my agenda, an agenda I called a “New Direction Forward.”

Knowing that my time as Chairman would be short, I wanted to be bold in action. I pledged that the agency would work to enhance American markets to revive stagnant economic growth. We would make sure our derivatives markets performed their essential role moderating price, supply and other commercial risks – shifting risk to those who can best bear it from those who cannot. Thus, they free up capital for business lending and investment that are necessary for economic growth, job creation and prosperity.

I said that our markets should be neither the least nor the most prescriptively regulated – but the BEST regulated – balancing market oversight, health and vitality. Thus, our approach to regulation should never be based on a crude measure of the *quantity* of regulation, but the *quality* of regulation and oversight.

To do that, we would follow a three-part agenda: completing unfinished business of the past, improving current operations, and preparing for the future, what I call becoming a 21st Century digital regulator.

Let me now review our work on this agenda, starting with the past.

IMPROVING PAST WORK

I have long been a public supporter of the G-20 swaps market reforms adopted by the U.S. Congress in Title VII of the Dodd-Frank Act. Yet, I have been critical of some of the regulatory implementation.

Dealer Capital

On the subject of dealer capital, I have consistently raised the concern of whether the amount of capital that bank regulators have caused financial institutions to **take out** of trading markets is at all calibrated to the amount of capital needed to be **kept in** global markets to support their overall health and durability.

In fact, the issue of the adverse impact of new bank capital requirements, particularly the supplementary leverage ratio (“SLR”) has been a bipartisan concern of the CFTC. Chairman Tim Massad, Commissioner Sharon Bowen, and I were quite aligned on the issue. Unfortunately, we were unable to influence prior leadership at the FDIC and the Fed. New leadership at both agencies has a better understanding of the importance of derivatives markets to economic growth and employment.

In April of last year, I co-authored a White Paper^[1] that addressed elements of emerging frameworks for bank capital requirements, including the SLR, which are biased against derivatives. It called for recalibrating bank capital requirements to better balance systemic risk concerns with healthy economic growth.

Recently, Commissioners Brian Quintenz, Russ Behnam, Dan Berkovitz, and I submitted a comment on the notice of proposed rulemaking issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation to implement a new approach for calculating the exposure amount of derivatives contracts under the agencies' regulatory capital rules.^[2] We explained that the proposed method of computing a bank's supplemental leverage ratio would not adequately give credit to the risk-reducing impact of a clearing firm receiving and holding a client's initial margin against a client's derivatives position. This proposed amended method – termed "SA-CCR" – would continue to disincentivize clearing members from providing clearing services, and thereby limit access to clearing in contravention of G-20 mandates and Dodd-Frank.

My CFTC colleagues and I are hopeful that the three agencies will soon take appropriate action to address these concerns.

SEF Rules

The CFTC's implementation of its swaps trading rules has long been a concern of mine. I believe the current framework is inconsistent with the Dodd-Frank Act by being too prescriptive, too burdensome and too modeled on futures markets. The framework is also highly subjective and overly reliant on a series of no-action letters, staff interpretations and temporary regulatory forbearance that may change at any time.

That is why, last November, the Commission issued a proposed rule on Amendments to Regulations on Swap Execution Facilities and the Trade Execution Requirement and a Request for Comment regarding the Practice of "Post-Trade Name Give-Up."^[3]

I believe there are two crucial reasons to improve the SEF rules: risk and opportunity. The impermanence of the current SEF rule framework poses risk for market participants. Staff in this, or a future administration less sympathetic to free markets, may well change or withdraw the numerous interpretations, guidance and compliance expectations that underpin the current framework.

Moreover, the current restrictions on methods of execution may turn out to be, by themselves, a source of trading risk during a liquidity crisis – when swaps counterparties need to be found through less prescriptive and more flexible means of execution.

On the other hand, improving the SEF rules presents opportunity – opportunity for service innovation by existing and new market entrants that has waned under the current framework. It is the opportunity to boldly create a regulatory framework that actually fosters innovation, entrepreneurship, competition and increased market vibrancy rather than stifle it.

Improving the SEF rules also increases the chance that the SEC will draw on the new framework in whole or in part for their security-based SEF regime. It would create a common U.S. regulatory approach for all swaps products, reducing operational and compliance costs and risks.

Perhaps, most importantly, improving the CFTC's SEF rules to make them more compatible with the inherent trading dynamics and episodic liquidity of swaps trading will enhance markets as mechanisms for price discovery and risk mitigation. We should be unafraid to build a better and more durable regulatory framework for swaps execution that will support vibrant markets and broad-based prosperity for a generation or more. We should do so now, while there is open-mindedness at the Commission for improvement.

Swap Data Harmonization

Swaps data harmonization is one of the last unfinished elements of the G-20 swaps reforms to be completed. Of all the swaps reforms to emerge from the financial crisis, visibility into counterparty credit risk of major financial institutions was perhaps the most pressing. It is quite disappointing that regulators are still working to complete this task.

Ideally, the harmonization of many dozens of swaps data standards would be done by experienced swaps regulators who understand how these swaps data standards are best arranged and formulated for active use and analysis. Swaps market regulators like the CFTC are the ones who have the legal authority and, thus, accountability to put these data standards in place and make them work.

Unfortunately, the global system for the governance of identifiers is being steered by a bureaucracy of agencies lacking necessary "skin in the game" attained from overseeing market participants required to report trades to data repositories. They seek to control how these identifiers are implemented around the world, yet they do not have the authority to mandate their use. Their interests are not focused on meeting the G-20 swaps reform objective.

The CFTC and other swaps regulators worldwide that oversee vital and active markets with legal authority to require the use of these identifiers must be the key voices on implementation and governance decisions for derivatives reporting rules and swaps data standards. It is only logical. It is a failure of international governance that the CFTC, the SEC, and our relevant counterparts in Europe and Asia are not fully managing this effort.

As a strong supporter of the G-20 reforms who does not suffer futility well, I am losing patience with the current process. If changes are not forthcoming in the governance of the implementation of these data standards, I am prepared to have the CFTC work with its key international counterparts and pursue a separate and more effective course to finally complete this long-overdue swaps reform.

ADDRESSING THE PRESENT

Project KISS

Turning to the present, two years ago, I announced to you the launch of **Project KISS**. It stands for “Keep It Simple Stupid.” It is an agency-wide review of CFTC rules, regulations and practices to make them simpler, less burdensome and less costly. It has resulted in a range of rule and process improvements that are reducing regulatory costs and burdens. Many KISS initiatives were recommended by market participants, but many were also initiated by our own agency staff that saw ways to reduce undue obligations on registrants and market participants. There are still more Project KISS initiatives in the pipeline.

Market Intelligence

Market Intelligence Branch. Here at Boca, I also announced that the CFTC would strengthen its ability to understand the current evolution of markets. In 2017, we set up the Market Intelligence Branch (MIB) as part of the CFTC’s Division of Market Oversight. The work of the new branch is important. It is to understand, analyze and communicate current and emerging derivatives market dynamics, developments and trends – such as the impact of new technologies and trading methodologies. The purpose of MIB is to increase the Commission’s knowledge of evolving market structures and practices in order to inform sound policymaking.

MIB has been a resounding success. It provides Commissioners and senior staff with daily summaries of market news a weekly report of key market developments. It also briefs other U.S. financial regulators, including the SEC, the Federal Reserve and the Treasury. In these briefings MIB covers the full range of derivatives markets from financials and precious metals to energy, currencies and agricultural commodities. In addition, MIB and other CFTC staff regularly present analyses of emerging trends, such as impacts of high frequency trading or block trade sizes in specific markets.[\[4\]](#)

Chief Market Intelligence Officer. Another step was the creation and appointment of a Chief Market Intelligence Officer (CMIO). Last month, we announced Mel Gunewardena as CMIO and Deputy Director of MIB. Mel’s deep experience in domestic and international financial markets, especially in over-the-counter derivatives, will be a superb addition and help the CFTC keep pace with rapidly markets evolution.

The Chief Market Intelligence Officer is also tasked with helping the public understand risk transfer markets and why they are so important to prosperity. Too many people, including investors, do not know what the CFTC does or why it does it – both from a marketplace and regulatory perspective. That is why we will continue our popular podcast series, #CFTC-Talks, that now has been downloaded over 75,000 times.

Chief Economist. Another element of market intelligence is building a 1st rate Office of the Chief Economist headed by a world-recognized economist, Bruce Tuckman, whom I recruited a year and a half ago. Since Dr. Tuckman’s arrival, the office has harnessed regulatory data to contribute meaningfully to policy deliberations and has continued to produce cutting-edge research so that we can better understand the roles of derivatives markets and their participants in our financial system. The office’s quantification of risk transfer through OTC derivatives markets using Entity-Netted Notionals or “ENNs” is being recognized as seminal work that adds much needed clarity and perspective to global swaps markets.

Agricultural Commodity Futures

The agency has also refocused its attention on agricultural commodity futures, its traditional foundation. During almost five years on the Commission, I have travelled the country and visited agriculture producers in over two dozen states from Montana, Texas, Arkansas, Louisiana and Iowa to Minnesota, Missouri, New York, Georgia, Mississippi and Oklahoma. I have walked in wheat fields and harvested soybeans, tramped through rice farms and beneath pecan groves, milked dairy cows and toured feedlots, visited grain elevators and viewed cotton gins. I have also met with our energy producers, going 900 feet underground in a Kentucky coal mine and 90 feet in the air on a North Dakota oil rig. Throughout, I have been moved by the diverse beauty of this country. I have come to love its hard-working families producing food and energy from this abundant land. These visits have been a great privilege for me.

Last year in Kansas, we held the CFTC's first ever annual agricultural futures conference along with Kansas State University.^[5] Panelists discussed current macro-economic trends and issues affecting our markets, like market speculation, high frequency trading, trade data transparency, novel hedging practices and market manipulation. Participants looked at problems in convergence between cash and futures prices and volatile storage rates and heard about advances in distributed ledger technology, algorithmic trading and other emerging digital technologies, as well as current regulatory activities in protecting participants from manipulation, fraud and other unlawful activities.

Our common purpose was to hear from end users who use our markets to hedge risk and consider and address issues of emerging market structure and trading practices. We will hold our second Ag futures conference on April 11-12, 2019.^[6] The program is excellent. I hope to see many of you there.

Enforcement

Focusing on the present includes due attention to the agency's enforcement program. Two years ago, I issued a warning to those who may seek to cheat or manipulate our markets that they would face aggressive and assertive enforcement action by the CFTC. I pledged there would be no pause, let up or reduction in our enforcement of the law and punishment of wrongdoing.

And that was true. During my watch, the CFTC has been resolute in holding market participants to the highest standards of behavior. In fact, by any measure, enforcement has been among the most vigorous in the history of the CFTC, including more enforcement actions, more penalties, more large-scale matters, more accountability, more partnering with criminal law enforcement and more whistleblower awards than in prior years.^[7] By almost any measure, we are enforcing the law with gusto and determination.

Yet, our strong fist of enforcement is wrapped in a velvet glove, a glove of cooperation and of transparency. Our cooperation and self-reporting program is meant to encourage a "culture of compliance" by reducing penalties for companies and individuals who identify the misconduct and tell us about it.^[8] This program is modeled on those of other national law enforcement agencies. We also strive to be transparent in our work, including publishing the Enforcement Division's first Annual Report.^[9] It also includes, again for the first time, announcing the priorities of our various examination branches.^[10]

Before I entered government service, I spent a decade and a half working on Wall Street. My commitment to transparent examination practices and robust regulatory enforcement derives from that experience. I have enormous respect for all of you – the good men and women of America's financial service industry who conduct themselves each and every day with integrity and honesty. You are the ones who are betrayed by the very few who engage in wrongful behavior.

It is the duty of government generally and the particular mission of the CFTC to fairly enforce market regulation and prosecute bad actors. We fulfill that mission so that America's financial markets are places for good people to fulfill their dreams, grow the economy and increase prosperity.

Run a Tight Ship

Two years ago, I pledged that I would run a tight ship at the CFTC. As a former business executive, I wanted to bring best operational practices from the private sector to the CFTC. I felt that such practices would best reward the trust placed in the agency by our Congressional overseers and U.S. taxpayers, who are our ultimate shareholders.

I am pleased to report that we have made progress. Staff morale is good. Our volunteer pay and benefits review team has made some thoughtful recommendations. We have a great cadre of new division directors, smart deputies and engaged staff with renewed focus on the operation of our markets.

We are working well with our labor union ending an adversarial posture before a Federal impasse panel upon my arrival. We have just received our first clean audit opinion in almost two decades, something of which I am most proud. And, importantly, the CFTC has just received its first funding increase in half-a-dozen years solely on the merits of our budget request.

With the funding increase, we can at last turn to many important needs of the agency, including some longer-range goals that have had too little attention. One is to leverage diversity to help us do a better job as a regulator working across a diverse global economy. I know this is an important theme of this year's FIA Conference. We have implemented targeted outreach to minority institutions such as Historically Black Colleges and Universities in order to identify potential student candidates for our internship program. We have also partnered with Gallaudet University, a federally chartered school for the deaf and hard of hearing, for future internship opportunities for students.

I am pleased to announce that, thanks to our increased funding, the CFTC will be able to offer a paid internship program this summer, which will ensure a diversity of participants and not just those who have the wherewithal to support themselves financially for the term.

Okay, now let me turn to overseas matters.

Effective International Engagement

Bridge Over Brexit. Two weeks ago, the CFTC along with the Bank of England and the Financial Conduct Authority (FCA), with support from Her Majesty's Treasury, issued a joint statement providing assurances to market participants on the continuity of derivatives trading and clearing activities between the UK and U.S. regardless of the outcome of the UK's withdrawal from the EU.

Together, the four authorities are taking measures to avoid regulatory uncertainty about the continuation of derivatives market activity between the UK and U.S. These measures should give confidence to market participants about their ability to trade and manage risk across the Atlantic. It is a great credit to the decades-long cooperation between the CFTC and the Bank of England, FCA, and HM Treasury, that we are able to work together to take these steps.

It is critical that the CFTC continue to work positively with its overseas regulatory counterparts, not just in the UK, but in all financial centers. That is why the afternoon after the CFTC-UK announcement, I traveled to Brussels to meet with European Commission Vice President Valdis Dombrovskis and Director-General Olivier Guersent to discuss how to broaden cooperation between the CFTC and the EC. And this is also why I asked the Monetary Authority of Singapore to join me here in Boca Raton today to announce the latest example of close cooperation between the CFTC and Singapore. I hope you will join us at 11:00 am today for this important announcement.

EMIR 2.2. As you know, the EU is in the process of reaching a political agreement on new amendments to the European Market Infrastructure Regulation (EMIR 2.2) pertaining to the regulation and supervision of central counterparties (CCPs). Agreement on the EMIR 2.2 legislation would begin a multi-year process in the EU to issue the delegated acts to implement the legislation and ultimately decide on the application of the EMIR 2.2 to individual CCPs.

I have made it clear to our counterparts in Brussels the range of U.S. concerns regarding the implementation of EMIR 2.2 and its potential impact on U.S. CCPs and the broader U.S. financial markets. These concerns include the application of EU law to U.S. domestic clearing activity conducted by U.S. market participants, the scope of systemic risk subject to proposed Tier II supervision, the lack of regulatory distinction between futures and swaps, and other issues of concern. We expect that these concerns will be afforded due consideration during the implementation of EMIR 2.2. We also expect that the starting point for discussion of any application of EMIR 2.2 to U.S. CCPs will be the agreement reached between the CFTC and EC in 2016 on CCPs and the recognition decisions that came out of that agreement.

International Workstreams. The CFTC continues to lead and advance American interests in international financial regulatory negotiations and meetings. This was evident two years ago when we led the effort to reach a common approach with our counterparts in Europe and Asia to ease the implementation of variation margin on uncleared swaps between dealers and their buy-side customers.

Today, the CFTC participates in more international work streams than ever in its history. The CFTC is an active contributor to the International Organization of Securities Commissions (IOSCO), Financial Stability Board, and IOSCO's joint work with the Committee on Payments and Market Infrastructures and Basel Committee on Banking Supervision. More importantly, the CFTC chairs or co-chairs international working groups on market fragmentation, efficient resiliency of OTC derivatives reforms, commodity principles, cybersecurity, regulation of financial market infrastructures, international data standards, and implementation monitoring and assessment. I am proud that CFTC leadership has made it possible to have IOSCO, the FSB and other groups produce international standards, guidance and reports that have substantially advanced the goal of a more resilient global financial system while supporting robust markets.

In all of its international engagements with fellow financial regulators and related regulatory bodies, the CFTC seeks to act in a forthright and candid manner, displaying leadership when appropriate and respect and due consideration at all times. The CFTC aims to be considered a trusted and worthy counterparty by its overseas regulatory counterparts.

Cross-Border Rule Proposals. Six months ago, I released a White Paper on cross-border swaps regulation that proposed updating the agency's current cross-border application of its swaps regime with a rule-based framework based on regulatory deference to third-country regulatory jurisdictions that have adopted the G-20 swaps reforms. As our regulatory counterparts continue to implement swaps reforms in their markets, it is critical that we make sure our rules do not conflict and fragment the global marketplace. That is why I believe the CFTC should move to a flexible, outcomes-based approach for cross-border equivalence and substituted compliance and operate on the basis of comity, not uniformity, with overseas regulators.

I also directed CFTC staff to prepare as soon as possible to put through the Administrative Procedure Act process various new cross-border rule proposals. In a moment, I will discuss next steps in cross-border policy development.

PREPARING FOR THE FUTURE: BECOMING A 21ST CENTURY REGULATOR

Embracing FinTech: Creating LabCFTC

I have frequently talked about transforming the CFTC into a 21st Century regulator amidst today's increasingly digital and algorithmic markets. I recently identified several factors that are challenging the work of regulators: the extraordinary pace of exponential technological change, the disintermediation of traditional actors and business models, and the need for technological literacy and big data capability.

I said that the CFTC's response to rapidly changing markets and technological developments, including blockchain technology and cryptocurrencies, is built upon the following four cornerstones:

- adopting an "exponential growth mindset" that anticipates the rapid pace of technological innovation and the need for appropriate regulatory response;
- becoming a "quantitative regulator" able to conduct independent market data analysis across different data sources, including decentralized blockchains and networks, without being reliant on self-regulatory organizations and market intermediaries;
- embracing "market-based solutions" to determine the value of technological innovations, as we witnessed with the launch of crypto-asset-based futures products; and
- establishing an internal FinTech Stakeholder to address the opportunities and challenges that FinTech presents and manage the ever-present tension between innovation and regulation.

For us, that stakeholder is **LabCFTC**. It was launched almost two years ago. In that time, it has had over 250 separate interactions with innovators big and small. It has offices in New York City. It conducts "lab hours" in places where innovators work: from Silicon Valley, California to Silicon Hills, Texas and from the South Bank of London to Singapore Center. LabCFTC is not a "sandbox." It does not try to pick winners from losers. Nor does it exempt firms from CFTC rules.

Instead, LabCFTC provides us both an internal and external technological focus. Internally, it means explaining technology innovation to agency staff and other regulators and advocating for technology adoption. Externally, that means reaching out and learning about technological change and market evolution, while providing a dedicated liaison to innovators. It has entered into FinTech cooperation agreements with regulators in London, Singapore and Australia. It has published well-regarded technology primers and requests for comments.

I am proud to say that LabCFTC has become a category leader. Every US federal financial regulator has either created or is creating a program similar to LabCFTC.

WHAT'S AHEAD

Okay. So here is what is immediately ahead and what I plan to get done before I leave.

There are several Project KISS initiatives that will soon move through the Commission. There are more in the pipeline that will likely finalize under my successor.

Last November, the Commission ruled that the numeric threshold for swap dealer *de minimis* would not fall from \$8 billion to \$3 billion. The Commission will soon consider permanent relief for certain insured depository institutions from counting certain swaps toward the swap dealer *de minimis* threshold.

All five Commissioners have committed to Congress to move forward with a final position limits rule. I believe the final rule must be responsive to the public comments and ensure that regulatory barriers do not stand in the way of long standing hedging practices of American farmers, ranchers, producers and manufacturers, who depend on our markets. I intend to put forth such a position limits rule proposal before I leave the Commission.

A moment ago, I said that the staff is preparing various new cross-border rule proposals. For the past eighteen years, the CFTC has regulated CCPs domiciled outside of the U.S. based on the core principle of deference to the oversight of primary regulators. But I believe we can and should defer more in order to effectively achieve the G-20 reforms in a global derivatives market. Before I leave, I intend to put before the Commission a rule proposal to address the registration of non-U.S. CCPs clearing swaps for U.S. persons. Among other things, the proposal will set forth a framework under which non-U.S. CCPs that do not pose a substantial risk to the U.S. financial system would have the option of being registered with the CFTC as a derivatives clearing organization "DCO" under an alternative registration framework. These alternatively registered DCOs would still be able to offer customer clearing through futures commission merchants (FCMs). Under this "enhanced deference" approach, the home country regulator would continue to have supervisory primacy, but with the CFTC more narrowly focused, from both a legal and practical perspective, on U.S. customer protection. For non-U.S. DCOs that do pose a substantial risk to the U.S. financial system, we would continue our current deference-based approach to oversight.

The proposal also will provide non-U.S. CCPs that do not pose a substantial risk, and that are subject to "comparable, comprehensive supervision and regulation" by appropriate government regulators in the CCP's home jurisdiction, the option to be exempt DCOs. Unlike the current CFTC approach to exempt DCOs, this option would permit exempt DCOs to offer customer clearing to U.S. eligible contract participants through foreign clearing members that are not registered as FCMs. This approach is similar to the CFTC's historical cross-border approach for futures clearing.

I also intend to put forth a rule proposal addressing the registration and regulation of non-U.S. swap dealers and major swap participants. In particular, the proposal will address the risk that non-U.S. swap dealing activity poses to the United States, but do so in a way that does not apply the swap dealer rules extraterritorially without sufficient consideration of whether the activity truly poses a "direct and significant" risk to the U.S. financial system, as Congress intended.

There are other cross-border proposals in the works that I trust will be taken up under the new Chairman.

Staying the Course

I said at the outset that I would serve out my full term, but no further. My experience of Washington is that most people that come here stay too long, not too short. In the next few months, I will return with satisfaction to my home and private life in New Jersey.

Looking to the past, I will be pleased that I have furthered and confirmed much of the Dodd-Frank mandate for swaps. Where I have identified flaws in implementation, I have proposed comprehensive solutions. The opportunity is at hand to create better frameworks that are more flexible, more durable and more supportive of deep and liquid markets, in good times and in bad. I hope you will work with Chairman Tarbert and the Commission to seize the opportunity.

As for the present, I have tried to do what my parents taught me – to leave any place I visit in a better condition than I found it: better run, better funded, more transparent, more accountable and more efficient in its vital mission overseeing American markets.

As for the future, I will be satisfied that I have raised the profile and reputation of the CFTC and set it on a course for the digital Twenty-First Century. So much is changing, and changing rapidly in our commodity derivatives markets. As market regulators, we are ready to listen, and we are working to understand. And, we will be dogged. The greater the pace of change, the greater must be our capacity to keep pace, understand and harness it.

The CFTC is well along the course of that new direction set two years ago – a course that is sustainable and true. I am confident that this course will continue under Chairman Tarbert.

Renewed Commitment to Free Markets

I have been coming to FIA Boca for over decade and a half. Today, I stand before you for the last time as CFTC Chairman.

Before I go, I want to reassert for you an enduring ideal. That is, the value proposition of free market capitalism.

The proposition is that broad and sustained prosperity generally occurs wherever in the world there are open and competitive markets, free of political interference, combined with free enterprise, personal choice, voluntary exchange and legal protection of person and property.

Under free market capitalism, well-regulated and well-ordered trading activity is considered a forum of human self-expression and economic advancement. Freedom to act in the marketplace is a part of freedom itself. Billions of consumers, following their own self-interests and individual needs, make the decisions that direct the future, not have it directed for them. For an emerging generation fascinated by crowd sourcing, free capital markets are the ultimate in crowd sourced decision making.

Free market capitalism is not a source of misery and oppression; free market capitalism is the antidote. It is unmatched in alleviating global poverty and unlocking human potential.

Whatever the flaws and mistakes of free markets, they are best addressed through the work of associations like FIA and regulators like the CFTC. The shortcomings of free markets are not fixed through government run economies. In fact, whenever capital, goods and services are allocated by government agencies, there are black markets and bread lines. Government controlled markets always turn abundance into scarcity and inequality.

Abandoning free markets devastates economies. It supplants equality of opportunity with equality of misery. During the twentieth century, approximately 70 million people perished from famine in countries with centrally planned food-procurement systems.^[11] In our own times, these systems produce starvation and disease right before our eyes.^[12]

We must disabuse our children of the notion that there is anything attractive or aspirational about political control of markets and human enterprise. Everywhere it has been tried, it has been a fraud and a failure. It crushes human liberty and society. It steals power from individuals and families and gives it to government and government elites. It enables abuse by a select few who exercise unbridled power over many. For young people, controlled economies are dream destroyers. Youth around the globe are ever in flight away from controlled economies toward free markets.

We must tell our children here at home that the value proposition of free market capitalism. Their American heritage of life, liberty and the pursuit of happiness are about the freedom of the individual – not just moral or political freedom – but economic freedom as well, freedom to live in a self-directed manner and conduct commerce as one may determine. Free markets should be the natural choice of today's youth, who today and always, aspire to bright and self-actualized futures.

Conclusion: A Future of Human Potential

I personally hope that we can renew faith in free markets for ourselves and our children. We must not be intimidated, but be confident. In so doing, we best encourage and reward the initiative, productivity, drive and dreams of everyone on this planet . . . not just for the soybean growers I met in White Cloud, Kansas; dairy farmers in Melrose, Minnesota; or cotton producers in Bardwell, Texas; but also for commodity traders in Chicago, swap dealers in New York and London, and pension managers in Tokyo. We must do so for the sakes of the tomorrow's citizens here at home and abroad, in developed economies and developing ones, in places like the Congo that lack infrastructure to meet growing needs or like Venezuela that face the consequences of bad economic and political choices.

With the proper balance of sound policy, regulatory oversight, private sector innovation and a little bit of courage, new technologies and global trading methodologies will lead our markets to evolve in responsible ways, and continue to grow the economy and create a future of untethered aspiration, a future where creativity and economic expression is a social good in its own right, a source of human growth and advancement.

Thank you for a privilege to speak to you today.

It has been my honor to serve you, our dynamic markets and the American people.

[1] Swaps Regulation Version 2.0: An Assessment of the Current Implementation of Reform and Proposals for Next Steps, Co-authored with CFTC Chief Economist Bruce Tuckman, April 26, 2018, at: <https://www.cftc.gov/PressRoom/PressReleases/7719-18>.

[2] Giancarlo, Quintenz, Behnam & Berkovitz, Letter regarding RE: Capital Adequacy: Standardized Approach for Calculating the Exposure Amount of Derivative Contracts, OCC Docket ID OCC-2018-0030 and RIN 1557-AE44; Board Docket No. R-1629 and RIN 7100-AF22; FDIC RIN 3064-AE80, February 15, 2019, at: <https://www.cftc.gov/sites/default/files/2019-02/SA-CCRCCommentLetter021519.pdf>.

[3] Federal Register, November 30, 2018, at: <https://www.federalregister.gov/documents/2018/11/30/2018-24643/post-trade-name-give-up-on-swap-execution-facilities>.

- [4] Among other research topics, MIB has analyzed sharp intraday price movements in the commodity futures markets, reviewing 2.2 billion transactions from 16 of the most actively traded futures contracts in all major market sectors using data from 2012 through 2017. See U.S. Commodity Futures Trading Commission, “Sharp Price Movements in Commodity Futures Markets: A Report by Staff of the Market Intelligence Branch Division of Market Oversight,” June 2018, at: <https://www.cftc.gov/sites/default/files/2018-06/SharpPriceMovementsReport0618.pdf>.
- [5] Protecting America's Agricultural Markets: An Agricultural Commodity Futures Conference, April 5-6, 2019, at: <https://www.k-state.edu/riskmanagement/conference.html>.
- [6] 2nd Annual Agriculture Commodity Futures Conference, April 11-12, 2019, at: <https://www.k-state.edu/riskmanagement/conference1.html>.
- [7] See, *generally*, “Regulatory Enforcement & Healthy Markets: Perfect Together!”, Remarks of Chairman J. Christopher Giancarlo at Economic Club of Minnesota, October 2, 2018, Minneapolis, Minnesota, at: <https://www.cftc.gov/PressRoom/SpeechesTestimony/opagiancarlo56>.
- [8] Speech of James McDonald, Director of the Division of Enforcement, Commodity Futures Trading Commission, Regarding Perspectives on Enforcement: Self-Reporting and Cooperation at the CFTC, NYU Program on Corporate Compliance & Enforcement / Institute for Corporate Governance & Finance, September 25, 2017, at: <https://www.cftc.gov/PressRoom/SpeechesTestimony/opamcdonald092517>.
- [9] CFTC Division of Enforcement Annual Report 2019, November 2019, at: https://www.cftc.gov/sites/default/files/2018-11/ENFAnnualReport111418_0.pdf.
- [10] CFTC Divisions Announce Examination Priorities, February 12, 2019, at: <https://www.cftc.gov/PressRoom/PressReleases/7869-19>.
- [11] Pierre Yared, “Nothing to Celebrate: A century after the Bolshevik revolution, we should remember Communism’s stark legacy—including mass starvation.” City Journal, [Winter 2018](https://www.city-journal.org/html/nothing-celebrate-15660.html). At: <https://www.city-journal.org/html/nothing-celebrate-15660.html>
- [12] Today in Socialist Venezuela, hospital emergency rooms are overwhelmed by children with severe malnutrition, a condition that was rarely seen in this natural resource rich country before its Socialist takeover. (See As Venezuela Collapses, Children are Dying of Hunger, MERIDITH KOHUT and ISAYEN HERRERA, New York Times, December 17, 2017, at: <https://www.nytimes.com/interactive/2017/12/17/world/americas/venezuela-children-starving.html>.) It is estimated that by May 2018 approximately 5,000 people per day were leaving Venezuela in search of food. (Rhoda Howard-Hassmann, World Peace Foundation, Famine in Venezuela, August 21, 2018, at: <https://sites.tufts.edu/reinventingpeace/2018/08/21/famine-in-venezuela/>.) At this rate, 1.8 million people will have left by the end of 2018, joining 1.5 million who have already fled. (Id.) This is over ten per cent of Venezuela’s population of 32 million. Id.