SPEECHES & TESTIMONY

Opening Statement of Commissioner Rostin Behnam before the Market Risk Advisory Committee Meeting

July 12, 2018

Introduction

Good morning and welcome to the CFTC's Market Risk Advisory Committee's (MRAC or Committee) second meeting of 2018. Since our last meeting in January, I renewed the Committee's charter for another two-year term and reconstituted the membership. I am pleased to welcome each and every one of our new and returning members to the MRAC.

The Committee members represent a balanced and diverse cross-section of interested derivatives market participants, including dealers, exchanges, clearinghouses, public interest groups, academics, and swap execution facilities. In selecting among the candidates, I committed to ensuring that each member have demonstrable experience in the areas I envision addressing in the next few years, and a point of view from which to engage. I believe the membership demonstrates these qualities and will bring depth and breadth to a public forum designed to tackle a full spectrum of critical market risk issues.

Before we move into the substance of today's meeting, I want to thank Chairman Giancarlo and Commissioner Quintenz for being here today and for their contributions to this discussion.

I also want to thank today's moderator, Tom Wipf, Vice Chairman of Institutional Securities at Morgan Stanley. Tom has more than forty years of experience as an industry leader, and has served in multiple capacities in New York, London, and Tokyo. Tom has always willingly shared his time and expertise here in Washington. He currently serves as a member of the Alternative Reference Rates Committee (ARRC) sponsored by the Board of Governors of the Federal Reserve System (Federal Reserve Board), which will be particularly relevant to today's conversation.

I want to thank each of the panelists for their willingness to travel to Washington in the middle of summer and contribute to this important conversation today. We have gathered a distinguished group of speakers, and their readiness to participate is greatly appreciated and critical to today's discussion.

I want to thank Alicia Lewis, the Committee's Designated Federal Officer. As Alicia demonstrated during the MRAC's first meeting in January, her discipline, intelligence, and hard work, are the reasons why these meetings are executed with ease.

This advisory committee is tasked with critical responsibilities that can have profound effects on the health, transparency, and strength of our financial markets. I believe it is important that all of us, as a unit, embrace this responsibility and use the opportunity to provide the Commission with thoughtful recommendations, directed at core principles, including identification and reduction of systemic risk; market safety, transparency, and efficiency; and prioritizing customer protections. The task is not easy; but, with focus, and an all hands on deck approach, I believe the MRAC can add value to an effort that is greater than each of us individually.

The Agenda

Our first order of business today will be an open discussion of the MRAC's priorities and agenda. MRAC's agenda has and will continue to be shaped by what members identify as the most pressing market risk issues. I look forward to hearing from all of our members today.

Thereafter, we will begin a Committee discussion on an issue that has moved in surges and ebbs at the forefront of our market over the last decade: the erosion of the unsecured interbank term borrowing market, which underlies the world's most prominent benchmark, the London Interbank Offered Rate ("LIBOR"), and the rampant misconduct incited by the decline. LIBOR has been subject to pervasive fraud, abuse, and manipulation. Since June 2012, the CFTC has levied sanctions of more than $3.3 billion for LIBOR-related misconduct. These important enforcement actions, initiated by prior CFTC leadership, not only addressed the bad actions of numerous individuals, but also a failure of financial institutions to properly police employees.

What much of the public also learned, as a result of these enforcement cases, is that LIBOR is not merely a financial tool for large institutions; LIBOR directly impacts the everyday lives of Americans across our nation. From the terms of the most basic home mortgage, to student loan agreements, auto financing contracts, and credit card purchases, LIBOR is pervasive throughout our real economy. At the expense of millions of Americans, a few individuals intentionally manipulated LIBOR to enrich themselves. These actions, however discrete, are a cautionary tale that shows how important today's exercise is to not only fix benchmarks, but ensure this type of fraud never happens again.

Our first panel will discuss the role of interest rate benchmarks in the economy, the impetus for LIBOR reform, and the current status of global reform initiatives. The discussion will focus on the efforts of the Financial Stability Board ("FSB") and the ARRC, as well as public and private sector coordination efforts in other jurisdictions.

Our second panel will do a deeper dive into current initiatives. Specifically, the discussion will address efforts led by the ICE Benchmark Administration Limited (IBA) to improve LIBOR, and the development of the Secured Overnight Financing Rate (SOFR), and SOFR derivatives.

Our third panel will discuss the effect of LIBOR reform on the derivatives markets. The discussion will focus on LIBOR reform's impact on legacy derivatives contracts, the development of fallback language, and key risk management and governance considerations for market participants. Finally, end-user and dealer representatives will discuss the risks their firms and clients face with respect to LIBOR Reform and how they or their clients are preparing to mitigate those risks.

Closing

I want to recognize the tremendous work of the ARRC, and also the work done overseas by the UK's Financial Conduct Authority, the Bank of England, the European Central Bank, and other key stakeholders. The timeline of events since the financial crisis is a compelling story of recognition and reform as well as collaboration and innovation in the benchmark space. We have a few years to reach a consensus and lay the foundations for the next generation benchmarks.

Working today with several members of the ARRC, my goal is to use this venue, this advisory committee, as a solutions-oriented body that sheds light on the challenges ahead, identifies the potential risks for financial markets and individual Americans, and seeks to support the ongoing work of the ARRC through deliverables that both recognize the critical importance of benchmarks, but also demand integrity and reliability.

The derivatives markets play an integral role in benchmarks, and as I am sure we will hear throughout today, finding solutions to the many issues and concerns about benchmark reform and transition rest within the markets overseen by the CFTC. I am certain the Market Risk Advisory Committee can play an important role in supporting all of the work that has been done dating back more than five years, but also in the few years ahead. I look forward to today's discussion.