



NEWS

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CFTC Definition of Swaps Should Be Modified to Explicitly Exclude Physical Options, Says NGSA

(Washington, D.C.) -- The Commodity Futures Trading Commission's (CFTC) proposed definition of a "swap" should be modified to explicitly exclude physical options, in accord with the Dodd-Frank financial reform act, according to comments filed today by the Natural Gas Supply Association (NGSA), along with the National Corn Growers Association. Physical options are commodity option contracts that are settled physically and are essential in the physical natural gas market.

"The CFTC's proposed definition would wrongly subject physical options to CFTC regulation as swaps," said Jenny Fordham, NGSA's vice president, markets.

"Physical options allow customers to manage supply needs that can vary based on many factors, including weather," said Fordham. "For example, a customer who wanted to take extra natural gas in case weather is colder than expected would request a physical option."

Fordham said, "Treating physical options as swaps harms end users in natural gas, corn and other physical commodity markets without providing significant benefits to those markets or to the U.S. financial system. Physical options are settled physically and they should be treated as physical contracts."

In their joint comments, NGSA and NCGA suggested these modifications to the proposed swap definition:

- Physical options should be excluded from the definition of a swap because they represent physical sales of commodities for deferred delivery -- transactions that were explicitly exempted under Dodd-Frank; and
- The CFTC should clarify the application of the forward-contract exclusion to (1) "book out" transactions - transactions where physical delivery is not carried out due to a later agreement; and (2) forward contracts with embedded options that leave exact quantities open to be settled.

The NGSA-NCGA comments follow.

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NGSA represents integrated and independent companies that supply natural gas. Established in 1965, NGSA encourages the use of natural gas within a balanced national energy policy, and promotes the benefits of competitive markets to ensure reliable and efficient transportation and delivery of natural gas and to increase the supply of natural gas to U.S. customers. For more information, please visit www.ngsa.org.