Natural Gas Supply Association

NEWS

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Proposed CFTC Regulations Must Facilitate Robust, Cost-effective Bilateral Energy Markets, NGSA Says

(Washington, D.C.) -- New financial regulations under consideration by the U.S. Commodity Futures Trading Commission (CFTC) must facilitate robust bilateral energy markets and avoid unnecessarily hindering natural gas market liquidity and investment, according to comments filed today by the Natural Gas Supply Association (NGSA). NGSA's comments included four specific recommendations on proposed CFTC regulations.

Jenny Fordham, NGSA vice president, markets, said, "We are committed to a liquid, well-functioning market that protects natural gas consumers and encourages capital investment in the natural gas industry. Throughout the financial reform debate, we have emphasized that our companies primarily use derivatives to reduce commercial risk to the benefit of natural gas consumers. Consequently, we urge the CFTC to adopt regulations that resolve the ambiguity around the terms Swap Dealer and Major Swap Participant and protect physical market participants from increased costs that would divert capital from productive uses, particularly where the capital diversion would not further the goal of protecting consumers."

Fordham said, "We support the development of a regulatory framework that protects physical market participants from increased costs, consistent with Congress's intent to avoid draining capital and impairing economic growth."

Specifically, NGSA recommended that:

- **Swap Dealer** definition of *de minimis* exclusion should be based on the percentage of swap transactions with customers relative to total swap transactions.
- **Capital and margin requirements for Non-bank Swap Dealers** should take into consideration the entity's overall risk profile, including physical assets, balance sheet strength and parent company support. Low risk profiles should face lower capital and margin requirements.
- **Review Process for Swaps Subject to Mandatory Clearing Requirements** should use liquidity test based on the full term of the swap agreement. If the liquidity test is not met for the full term, the swap should not be subject to mandatory clearing.
- **Position Limits** exemption for bona fide hedging must avoid rigid categorization and avoid tendency to second-guess by applying 20-20 hindsight.

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