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Speech

The Ancient Art of Glassmaking
(As Prepared for Delivery)

Speech by Commissioner Bart Chilton of the Commodity Futures Trading Commission before the Future and Options Association, London, England

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It is a pleasure to be with you today. I'm glad to have an opportunity for us to discuss some timely issues of mutual interest on both sides of the Atlantic. Your association does a great job for its members, as well as providing global leadership in our industry, and I hope that our ongoing discussions, in this and other venues, will have mutual benefits for the futures and options markets world-wide.

Transparency: An Essential Goal

One of the most important concepts in any regulatory discussion is the issue of "transparency": transparency in on- and off-exchange trading platforms, transparency in clearing systems, transparency in regulated entities, and even transparency as it relates to regulatory activity. In fact, I've heard it said recently that "transparency" hasn't been as highly valued a benchmark since the invention of glass.

Which got me started thinking about glass-making. The Egyptians were making glass 2000 years ago, but there's some evidence that the Mesopotamians may have been making glass a thousand years earlier. Glass has, for centuries, been prized for its utility as well as for its beauty. Glass has been compared to gold in value, and the pursuit of perfect glass has been likened to the search for wisdom.

So what does that have to do with our industry? Financial markets place a high premium on transparency, just as glass-makers do. Perhaps we even value it more highly; for markets and for regulators, the less opaque, the more useful and efficient our markets are.

And just as there have been amazing developments in the art of glass-making over the centuries, our industry has experienced rapid, profound, and fundamental changes in recent years. Globalization, technological advances, changes in market structures and participants, all present challenges for regulators and for markets. As a regulator, it's my job to anticipate and prepare for change, and to keep certain goals foremost in mind—protecting consumers, ensuring the integrity of markets, fostering innovation and competition—all of these are paramount on the regulator's agenda. And achieving transparency—for markets, participants, and regulators—is a key component of ensuring safe, sound, and efficient financial markets. The methods we use in the regulatory arena to obtain this goal are worthy of some discussion.

Principles-based Regulation: Achieving Regulatory Goals

In the U.S., the CFTC has experienced great success with a principles-based regulatory system, instituted by Congress in 2000 in enacting the Commodity Futures Modernization Act. This system, unique among American regulators, allows the agency to be flexible and quick to respond to market events. As you well know, it provides the regulator with the ability to allow markets to innovate and compete, while at the same time maintaining the ability to protect against fraud and manipulation. Principles-based regulation is a useful tool in our arsenal to foster and ensure market transparency, as well as to ensure transparency in the conduct of market participants. For example, principles-based regulation has allowed us to focus our resources and efforts on enforcement and surveillance of our markets to ensure the public's confidence, and this has borne fruit in the increased in number of prosecutions and in the amount of fines levied since the institution of this regulatory approach.

Finding the appropriate level of regulation requires a delicate balancing act: instituting enough oversight authority to ensure protection against fraud and manipulation, while at the same time making sure that such authority does not become overly burdensome or duplicative. I'm gratified that the CFTC is garnering recognition for its usage of this system in the U.S., and this approach has enhanced transparency for markets, participants, and regulators. I believe that, as evidence of the success of principles-based regulation becomes more widely known and appreciated, this type of system will become more fully utilized in other areas of our government.

Treasury Blueprint: Merger Recommendation

As you know, part of our reorganization discussion in the U.S. has resulted in a proposal to merge securities and derivatives regulation. I have been a vocal opponent of this idea; indeed, I personally filed a comment outlining my views on the Treasury's proposal when it was released last October. I have consistently said that any such costly reorganization must be justified by 1) significant efficiency gains, and 2) competitive advantages for markets and market participants. At this point, the case simply has not been made that the costs of such a merger in the U.S. would justify this type of consolidation.

That being said, I appreciate discussion with you about your experiences with a single regulatory system. I have spoken with exchanges here in London and met with the FSA, but I would like your opinions. Specifically, I'm interested in your thoughts as they relate to increased efficiency and improved competitive advantages under a single regulator. I'm also curious about your views of FSA's recent decision not to pursue publication of Commitment of Traders (COT) reports. Some have argued this will result in a critical lack of transparency as to the positions of hedge funds in derivative markets. I know of concerns raised in the U.K. by traders, including Morgan Stanley, Barclays Capital and others, but I am interested in your thoughts. While I certainly would not suggest a particular course of action to another regulator, I will say that the COT report the CFTC publishes has proved invaluable to our oversight and enforcement efforts in the U.S. Your input in these areas will be extremely helpful as we continue our regulatory debate in the U.S. and with regulators around the globe.

"Harmonization" of Regulatory Standards

As our markets become increasing globalized and interdependent, one of the issues that arises is the question of regulatory consistency (or lack thereof) across borders, and that includes oversight data like the Commitment of Traders report. I view our discussions of our respective statutory and regulatory standards, in fora such as IOSCO and CESR, as invaluable to improving the harmonization of our various authorities, as appropriate. Increasing market transparency across jurisdictional and cultural lines, as well as ensuring open access to markets, are important goals as we discuss our varying regulatory systems. I believe that EU/US Coalition on Financial Regulation is an extremely useful vehicle for advancing these goals. I have read with great interest the March 2008 report of the Coalition, and am fully supportive of the stated goals, particularly the emphasis on encouraging acceptance of mutual recognition across borders. I also was pleased to see, in the "first tier" issues, in addition to enhancing market access, an emphasis on regularizing reporting standards. But I want to be clear, while I support greater coordination and harmonization, I won't do so at the expense of such useful oversight efforts as the COT report and other tools in our oversight and enforcement arsenal. The Coalition has outlined an ambitious agenda, and I look forward to seeing progress made on these important issues.

Conclusion

Thank you again for your hospitality and having me as your guest today. I look forward to answering any questions you have and continuing an open dialogue, not only about the issues I've mentioned today, but also about others that face our global industry as we are seeking to ensure honest, stable, and transparent markets.