Commodity Futures Trading Commission
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CFTC Emergency Authority Background

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The CFTC currently has emergency authority powers, as granted by Congress and found in Section 8a(9) of the Commodity Exchange Act (CEA).

These powers are based on Commission judgment and allow the Commission to take action to "maintain or restore orderly trading."

In the CEA, the term "emergency" means, in addition to threatened or actual market manipulations and corners, any act of the United States or a foreign government affecting a commodity or "any other major market disturbance which prevents the market from accurately reflecting the forces of supply and demand for such commodity."

The Commission has exercised its emergency powers in response to extreme events, such as manipulation or a specific disturbance that caused a sudden shock to the markets.

The CFTC has never exercised emergency powers based on price trends that have developed over months or years.

Since the agency's creation in 1976, it has used its emergency authority **four times**.

- November 1976 Maine Potatoes Traded on NYMEX: This involved a threat of manipulation in an expiring contract. In November 1976, the Commission declared an emergency and ordered the exchange to impose 100% margins on all accounts and to limit trading in this contract to liquidation only.

- December 1977 Coffee Traded on New York Coffee and Sugar Exchange: This again involved a threat of manipulation in an expiring contract. In November 1977, the Commission, in conjunction with the exchange, declared an emergency and ordered a phased liquidation of all positions subject to a prescribed schedule.

- March 1979 Wheat Traded on CBOT: This again involved a threat of manipulation in an expiring contract. In early 1979, the Commission declared a market emergency and ordered a 1-day suspension of trading so the exchange could take further regulatory action. Subsequently, based on its belief that an emergency continued to exist, the Commission ordered the exchange to suspend all further trading in the contract and to settle any contracts remaining after the delivery period expired at the last prevailing settlement price for that contract.

- <u>January 1980 Soviet Grain Embargo</u>: In January 1980, when President Carter imposed the Soviet grain embargo after the USSR invaded Afghanistan, the Commission declared an emergency and suspended trading for 2 days in futures for wheat, corn, oats, soybeans, soybean meal and soybean oil that were traded on 4 different exchanges. The Commission acted because, in its view, the sudden shock to the market and uncertainties concerning unannounced USDA plans to compensate those affected by the embargo would render the markets temporarily incapable of accurately reflecting the forces of supply and demand. The 2-day suspension gave the markets time to consider the USDA support programs in light of the embargo action.

The exercise of emergency action by the CFTC is subject to review in the U.S. Courts of Appeals based upon the information before the Commission at the time of the emergency action.

The designated contract markets (regulated futures exchanges) also have similar emergency authority by statute, as outlined in CEA Section 5(d)(6).