



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ALAN GREENSPAN
CHAIRMAN

November 4, 2005

The Honorable John R. Kuhl, Jr.
House of Representatives
Washington, D.C. 20515

Dear Congressman:

You have asked for my views on H.R. 1638, the Commodities Exchange Improvements Act of 2005. This legislation apparently seeks to use regulation to reduce natural gas prices or price volatility. Natural gas prices in the United States have been higher and more volatile than natural gas prices abroad, and these price movements have weakened the competitive position of industries that are heavily dependent on natural gas. However, these developments are the result of a lack of adequate liquefied natural gas import facilities in the United States as well as a lack of adequate facilities abroad to produce liquefied natural gas. They are not the result of weaknesses in the regulation of U.S. natural gas markets generally or futures exchanges specifically.

The legislation will not achieve the intended result because high and volatile natural gas prices are not a consequence of regulation. But the legislation would have an unintended result of creating uncertainty about the legal enforceability of some over-the-counter contracts in natural gas. It surely would severely constrain the Commodity Futures Trading Commission's (CFTC) ability to make judgments about the appropriate regulation of exchange-traded markets for natural gas. By imposing large trader reporting requirements on bilateral over-the-counter transactions, it would place costs on energy users and undermine market discipline as market participants come to depend upon the CFTC to protect their interests. Further, by writing a price limit into the statute, the bill runs the risk of halting trading on futures markets at the time market participants would most need to conduct transactions.

Sincerely,

A handwritten signature in black ink, appearing to be "Alan Greenspan", written over the word "Sincerely,".