



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

December 13, 2005

ALAN GREENSPAN
CHAIRMAN

The Honorable Michael G. Oxley
Chairman
Committee on Financial Services
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

You have asked for my views on Title II of the CFTC Reauthorization Act of 2005, which relates to transparency of the pricing of natural gas, and has not been reviewed by the President's Working Group on Financial Markets. Natural gas prices in the United States have been higher and more volatile than natural gas prices abroad in recent years, 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. Title II does not affect those market fundamentals and, therefore, will not lower natural gas prices or reduce price volatility.

The provisions of Title II are rather vague and could be construed as a broad expansion of the Commodity Futures Trading Commission's mandate. Specifically, the legislation requires the Commission to conduct surveillance of trading in contracts for natural gas, which could be read to require surveillance of cash markets and over-the-counter derivatives, as well as the exchange-traded markets that the Commission currently oversees. The case for such a broad expansion of the Commission's mandate simply has not been made.

The legislation also directs the Commission to require persons that hold large positions in natural gas futures contracts on an exchange to keep records and submit reports on those contracts, as well as on any related contracts to which the person is a party. The Commission already has broad authority under existing law to require records and reports on futures contracts, so there does not appear to be a need for additional statutory provisions with regard to that authority. Potentially broadening recordkeeping and reporting requirements beyond futures contracts could impose substantial burdens on market participants that are unlikely to be outweighed by their benefits.

Sincerely,

A handwritten signature in black ink, appearing to read "Alan Greenspan", written over a circular stamp or seal.