AMERICANS FOR FINANCIAL REFORM

Fact Sheet on CFTC Funding

WHAT IS THE CFTC? WHY DOES IT MATTER?

The Commodity Futures Trading Commission is a little-known agency with a crucially important part to play in Wall Street oversight.

The CFTC was created to guard the integrity of the futures and option markets used by farmers and commodity merchants – a job that includes protecting against the manipulation of prices for key consumer commodities like gasoline and food. Now, under the Dodd-Frank financial reform law of 2010, the CFTC also bears much of the responsibility for regulating over-the-counter derivatives or “swaps.” These are the “financial weapons of mass destruction,” as Warren Buffett labeled them, whose out-of-control trading helped bring on the financial crisis of 2008, followed by an economic catastrophe from which the country is still struggling to recover.

The CFTC’s mission is to bring safety and transparency to these high-stakes markets.

THE GAP BETWEEN MISSION AND MEANS

The CFTC has yet to receive anything like the resources it needs to do the job it has been handed. Last year, the Obama administration proposed a CFTC budget of $315 million. Because of opposition in the House of Representatives, however, the Commission wound up with just $215 million.

“Woefully understaffed, underfunded, and outmatched” is how Bloomberg BusinessWeek described the CFTC in October 2013. “All the work we’ve done up to now,” outgoing CFTC Chairman Gary Gensler said, “is at risk because we don’t have enough budget resources.”

While the CFTC has met most of its rulemaking deadlines, it lacks the resources to properly enforce its rules. “Rulemaking should not be confused with having enough staff or technology to actually oversee the swaps market,” Gensler told Bloomberg. “To do that, we need hundreds of more people to swim through all this data, to examine it, to answer questions about it, and to ensure it’s accurate.”

The CFTC’s staff (which stood at 675 in October 2013) is just slightly larger than it was two decades ago. Since then, the volume of commodity futures trading (the Commission’s traditional responsibility) has grown by a factor of five, while its new area of responsibility, the derivatives markets, is approximately eight times bigger than the futures market, and far more complex. The CFTC, with a current annual budget of $215 million, must regulate a market with a notional size of close to $300 trillion. The banking giants that the CFTC must regulate spend tens of billions a year – hundreds of times the CFTC budget – on information technology alone.

PENNY WISE, POUND FOOLISH

The Obama Administration's has proposed a budget for the coming year (FY 2015) that sets CFTC funding at $280 million – a $65 million increase over current funding, but a decrease of $35 million from last year's Administration request. And that lowered number is likely once again to face strong resistance in the House.

House leaders say they are looking out for the public purse. But the less than $100 million at issue here is a small number when measured against the estimated $14 trillion in damage to the U.S. economy from the 2008 financial crisis. And if budget numbers were truly the sticking point, the CFTC could easily be funded without budget impact through a tiny fee on the markets it regulates - as the Obama administration has proposed. This would replicate the funding mechanism for other major financial regulators.

The CFTC is a very small agency by the standards of other financial watchdogs – about one sixth the size of the Securities and Exchange Commission and a tenth the size of the Federal Deposit Insurance Corporation. In recent years, moreover, the Commission has collected far more in fines – roughly $2 billion last year – than it receives in tax dollars.

The failure to adequately fund the CFTC amounts to a backdoor deregulation of the commodity and derivatives markets, putting our economy at risk. Brooksley Born, the CFTC leader who unsuccessfully fought to regulate the derivatives markets in the late 1990s, has warned of "continuing danger from these markets… until we learn from experience."