

Energy Trading Regulator Announces New Initiatives; Market Reacts

On Thursday, May 29th, the principal regulator of U.S. energy trading, the Commodity Futures Trading Commission, announced a series of new and expanded energy trading oversight initiatives. Immediately after the announcement, front month crude oil contracts on the Merc dropped and closed the day down \$4.41 per barrel (refined products also declined). The new initiatives include:

1. A new agreement with their regulatory counterpart in the United Kingdom that would allow greater data sharing of U.S. Crude Oil contracts traded in that country (under the “Foreign Markets Loophole,” also note that NEFI has not yet seen the details of this new international agreement);
2. Improved oversight of complex index and swaps trading (though the “swaps loophole,” see Mike Masters testimony in lead story article);
3. A major announcement that since December of 2007, the CFTC has had an ongoing and “confidential” investigation into the “purchase, transportation, storage and trading of crude oil and related derivative contracts” to be certain “that the markets are properly policed for manipulation and abusive practices.”

Certainly, there are reasons to be skeptical about this announcement. The CFTC has been under a lot of pressure lately, by Congress, the media and consumer and trade groups, especially NEFI. It may be trying to preempt its critics in advance of a major Senate hearing next week (at which PMAA will be testifying). Additionally, the announcement seems to imply that the CFTC does not have the authority it needs to police the market, and that there is a problem with the markets which is the opposite of what Acting Chairman Lukken has in Congressional testimony as early as two weeks ago. And then there is the lack of both certain legal authorities and monies it would need to “get tough,” both of which can only be legislated by Congress. Nonetheless, the announcement is a very positive step and a definite change of tone for the CFTC, and a step in the right direction. [Read the full statement here.](#)