

**Testimony of Chairman Timothy G. Massad before the
U.S. Senate Committee on Appropriations
Subcommittee on Financial Services and General Government
Washington, DC
May 5, 2015**

Good morning, Chairman Boozman, Ranking Member Coons, and members of the Subcommittee. I am pleased to testify before you this morning on behalf of the Commission regarding the President's request for the fiscal year (FY) 2016 budget for the Commodity Futures Trading Commission (CFTC).

The Commission has been very busy since two of my fellow commissioners and I joined about 11 months ago. We have taken several actions to make sure that commercial end-users can continue to use the derivatives markets effectively and efficiently. We have continued to work to bring the over the counter swaps market out of the shadows and implement the regulatory reforms mandated by Congress. We have focused on making sure clearinghouses are strong and resilient. We have worked to improve the swap trading framework and to enhance data collection. We have been collaborating with our domestic colleagues, including at the Securities and Exchange Commission, and I want to thank Chair White. There are a number of issues that impact both our agencies, and I appreciate our strong, cooperative working relationship. We have also worked closely with our international colleagues toward harmonizing new swaps rules as much as possible. And we are continuing to engage in the compliance, surveillance, and enforcement work that is necessary to prevent fraud and manipulation, and enhance market integrity and transparency. But there is much more we need to do.

Before discussing our budget request, I know I speak for all the Commissioners in thanking our dedicated and talented staff for their hard work and dedication. The progress we have made is a credit to their tireless efforts. I also want to thank each of my fellow commissioners for their efforts and commitment. I believe we are working together constructively and in good faith to do the best job we can in carrying out the Commission's responsibilities.

Our current FY 2015 budget provides an increase of \$35 million over the previous year. This increase was essential to our ability to carry out our mission. We are grateful for it. We have outlined in our FY 2015 Spending Plan how we are using these resources, which includes modernizing our information technology capabilities and bolstering our staff in critical areas.

Even with this increase, however, the CFTC's budget is not at a level that is commensurate with its responsibilities. Our responsibilities in the last few years have increased significantly, and now include overseeing the swaps market, an over \$400 trillion market in the U.S., measured by notional amount. In addition, the markets the Commission has traditionally overseen have grown in scale, technological sophistication, and complexity. The number of actively traded futures and options contracts has doubled since 2010 and increased six times over the last 10 years. Trading is increasingly conducted in an automated, electronic fashion, and cybersecurity has become a major new threat to the integrity and smooth functioning of the critical market infrastructure that the Commission regulates. While these developments, among others, have

brought new responsibilities and challenges to the Commission, its capabilities have not kept pace. Our resources continue to be stretched far too thinly over many important responsibilities.

The Significance of Derivatives Markets and Importance of Sensible Oversight

The derivatives markets are profoundly important to a wide variety of businesses in our country. They enable businesses of all kinds to hedge commercial risk, whether it is a farmer locking in a price for his crops, a utility hedging the cost of fuel or an exporter managing foreign currency risk. Those businesses depend on the Commission to do its job efficiently and sensibly. The Commission's budget is a small, but vital, investment to make in order to make sure these markets operate with integrity and transparency.

It is also helpful to remember how excessive risk related to swaps contributed to the 2008 financial crisis, and the cost of that crisis to American families and our economy, to recognize the value of this investment. That crisis resulted in eight million jobs lost, millions of foreclosed homes, countless retirements and college educations deferred, and businesses shuttered. Indeed, the amount of taxpayer dollars that were spent just to prevent the collapse of AIG as a result of its excessive swap risk was over 700 times the size of the CFTC's current budget. Another perspective on the size of our budget is the fact that from 2009 through 2014, the Commission collected fines and penalties of approximately twice its cumulative budgets. This year the fines and penalties collected are already about 10 times our budget.

The CFTC's Budget Request for FY 2016

The Commission requests a budget of \$322 million and 895 full-time equivalents (FTE) for FY 2016. This will enable us to engage in the following critical activities, among others, in support of our mission:

- Enhance our surveillance and enforcement capabilities to keep pace with our expanded oversight responsibilities and the overall growth and increasing complexity of the derivatives markets.
- Enable us to perform on a timely and thorough basis the examinations of critical market infrastructure, such as exchanges and clearinghouses, as well as intermediaries that hold billions of dollars in customer funds, to ensure that they are protecting customer interests and operating in compliance with Commission requirements.
- Enable us to review and provide timely responses to requests and concerns of derivatives market participants, including with respect to new product approvals and other innovations.
- Substantially expand our capabilities with respect to cybersecurity, which is the single most important threat to financial stability today.
- Make key investments in technology systems and resources that are vital to carry out our core mission activities.

Before I discuss the budget request in more detail, I would like to review what we have been doing in several areas.

Addressing the Concerns of Commercial End-Users

Over the last 11 months, we have taken several actions to make sure that commercial end-users can continue to use the derivatives markets effectively and efficiently. This has involved fine-tuning rules to ensure that they work as Congress intended and do not impose unintended consequences on commercial end-users. Some of the steps we have taken include:

- Local Utility Companies. In September, the Commission amended its rules so that local, publicly-owned utility companies could continue to effectively hedge their risks in the energy swaps market. These companies, which keep the lights on in many homes across the country, must access these markets efficiently in order to provide reliable, cost-effective service to their customers. The Commission unanimously approved a change to the swap dealer registration threshold for transactions with special entities which will make that possible.
- Customer Protection/Margin Collection. In March, the Commission unanimously approved a final rule to modify one aspect of our customer-protection related rules, which had previously been unanimously adopted in the wake of MF Global's insolvency and were designed to prevent a similar failure from recurring and to protect customers in the event of such a failure. To address a concern of many in the agricultural community and many smaller customers regarding the posting of collateral for their trades, we removed a provision that would have automatically changed the deadline for futures commission merchants to post "residual interest," which, in turn, can affect when customers must post collateral.
- Recordkeeping Requirements. We have proposed to exempt end-users and commodity trading advisors from certain recordkeeping requirements related to text messages and phone calls. This proposal is designed to make sure we do not impose undue recordkeeping requirements on commercial end-users.
- Treasury Affiliates of End-Users. The Commission staff took action to make sure that end-users can use the Congressional exemption given to them regarding clearing and swap trading if they enter into swaps through a treasury affiliate. It is common for a large corporation with significant non-financial operations to have a separate affiliate enter into swaps and financing transactions on behalf of the larger corporation and its subsidiaries.
- Reporting Requirements for Contracts in Illiquid Markets. CFTC staff recently granted relief from the real-time reporting requirements for certain less liquid, long-dated swap contracts that are not subject to mandatory clearing and do not yet trade on a regulated platform. We agreed to permit slightly delayed reporting for these swaps so that the real-time reporting requirements in Dodd-Frank do not lead to identifying market participants, as that could result in competitive harm.

- Volumetric Optionality. Last week, the Commission voted to clarify an interpretation of when certain agreements are forward contracts, rather than swaps. Specifically, we clarified when an agreement, contract, or transaction that contains embedded volumetric optionality falls within the forward exclusion from being considered a swap. “Embedded volumetric optionality” refers to the contractual right of a counterparty to receive more or less of a commodity at the negotiated contract price. Contracts with this feature are important to, and widely used by, a variety of end-users, including electric and natural gas utilities. By clarifying how these agreements will be treated for regulatory purposes, the interpretation is intended to make sure commercial companies can continue to conduct their daily operations efficiently. Once this interpretation is acted upon by the Securities and Exchange Commission, as definitional issues require actions by both Commissions, we will publicly release the final interpretation.
- Trade Options. Likewise, the Commission last week voted to issue a proposed rule reducing reporting and record keeping requirements with respect to trade options. These products are also commonly used by commercial participants.

Finishing the Remaining Rules

A second priority has been to finish the few remaining rules required for the new swaps regulatory framework as agreed by the G-20 nations and enacted by Congress. This includes the rule on margin for uncleared swaps, which plays a key role in the new regulatory framework because uncleared transactions will always be an important part of the market. Certain products will not be suitable for central clearing because of their lack of sufficient liquidity or other risk characteristics. In these cases, margin will continue to be a significant tool to mitigate the risk of default from those transactions and, therefore, the potential risk to the financial system as a whole. We have made sure that our proposed rule on margin for uncleared swaps exempts commercial end-users from its requirements.

We are also working closely with the domestic bank regulators, who are also responsible for issuing rules on margin, to harmonize the rules as much as possible. I am hopeful that we can finalize these rules by the summer.

Another important rule we are working to complete is the position limits rule. The law mandates that the agency adopt limits to address the risk of excessive speculation. In doing so, we must also make sure that market participants can engage in bona fide hedging. We have received substantial input on this proposal and staff are considering these comments carefully.

Clearing and Risk

Clearinghouse oversight continues to be another priority. In this post-global financial crisis world, clearinghouses play an even more critical role than before. In our markets, for example, the percentage of swaps cleared has increased from 15% in December 2007 to about 75% today. So we need to make sure clearinghouses have strength and resiliency.

Over the last few years, the agency has done a major overhaul of its clearinghouse regulatory framework, including by incorporating international standards and taking other steps to

strengthen risk management practices and customer protection. We are also engaged in extensive oversight activities that include, among other things, daily risk surveillance, stress testing, and in-depth compliance examinations. Our oversight efforts also focus on risk at the clearing member and large trader levels. And while our goal is to never get to a situation where recovery or resolution of a clearinghouse must be contemplated, we are working with fellow regulators, domestically and internationally, on the planning for such contingencies, in the event there is ever a problem that makes such actions necessary.

In addition, we are addressing new risks like cybersecurity. This applies to key exchanges and other critical infrastructure as well as clearinghouses. We have incorporated cyber concerns into our regulations and made it a priority in our examinations. Our challenge is to leverage our limited resources as effectively as possible. We do not have, for example, the resources to do independent testing of cybersecurity measures. Therefore, we are looking at whether the private companies that run major exchanges and clearinghouses are doing adequate testing themselves of their cyber protections, such as control testing, penetration testing and vulnerability testing.

Implementing the Framework for Swaps Trading

We have also continued to make progress implementing the new framework for swaps trading. It has been a little over a year since the first made-available-for-trade determinations. We currently have almost two dozen swap execution facilities (SEFs).

Information compiled by the International Swaps and Derivatives Association highlights some positive trends. Measured by trade count and notional value, SEF trading accounted for about half of total volume in 2014, and the percentage is much higher for swaps on CDS indices. We have also seen a significant increase in non-U.S. market participants participating on SEFs for credit indices.

Our goal is to build a regulatory framework that not only meets the Congressional mandate of bringing this market out of the shadows, but which also creates the foundation for the market to thrive. To do so, the regulatory framework must ensure transparency, integrity and oversight, and, at the same time, permit innovation, freedom and competition.

We have taken several steps recently to improve SEF trading. This has included the following:

- Package Transactions. Last fall the staff issued no-action relief to provide market participants additional time to adapt to exchange-based trading. That phasing of compliance deadlines has worked well.
- Block Trades. The staff addressed the issue of pre-trade credit checks for block trades, and the so called “occurs away” requirement, so that block transactions could continue to be negotiated between parties and executed on SEF.
- Error Trades. CFTC staff issued no-action relief that will streamline the process for correcting erroneous trades.

- Cleared Swap Reporting. We intend to initiate a rulemaking to clarify reporting of cleared swaps as well as the role played by clearinghouses in this workflow. This rulemaking will propose to eliminate the requirement to report Confirmation Data for intended to be cleared swaps that are accepted for clearing and thereby terminated.
- SEF Confirmations. Staff has issued no-action relief permitting the SEF legal confirmation to incorporate the ISDA Master Agreement by reference. This also clarified the SEF reporting responsibility regarding uncleared swaps – SEFs need only report “Primary Economic Terms” – as well as any Confirmation Data they do in fact have.

Flexibility Regarding Methods of Execution. Our staff has been working with SEFs to make it clear that our rules permit flexibility in methods of execution as long as the regulatory standards and goals are met. Staff has confirmed that an auction match trading protocol is acceptable as long as SEFs provide adequate transparency regarding the process for setting the offer price.

SEF Financial Resources. Our staff has issued guidance that clarifies the calculation of projected operating expenses for the purpose of determining the capital that the law requires SEFs to hold. Specifically, the guidance clarifies that variable commissions that SEFs pay do not have to be included in a SEF’s calculation of projected operating costs.

I would note that in some areas where the staff has acted by no-action letter to provide temporary relief at the request of industry participants, we are considering taking up the issue in a rulemaking in order to find a permanent solution.

We are looking at a number of additional issues concerning SEFs, such as the made available for trade determination process and concerns about the lack of post-trade anonymity for certain types of trades, and we will continue to do all we can to improve the regulatory framework and enhance SEF trading.

Cross-Border Harmonization

We are also focused on addressing cross border issues related to the new framework. We have had productive discussions with the Europeans to facilitate their recognition of U.S. based clearinghouses. We have offered a substituted compliance framework for clearinghouse regulation which was their principal concern. I believe there is an ample basis for them to make a determination of equivalence, and I hope that they will do so soon.

Another important area for cross-border harmonization is the proposed rule on margin for uncleared swaps. We have been working with our counterparts in Europe and Japan, and I am hopeful that our respective final rules will be similar on most issues.

We are also focused on the cross-border implications of our trading mandate rules. This has been one of the greatest challenges. We were among the first to implement swaps trading rules and to mandate trading of certain products; many other jurisdictions have not yet done so. To avoid the potential for any regulatory arbitrage, we look forward to others adopting their own rules to implement swaps trading as well as the other G-20 commitments, and we look forward to working with them to harmonize rules as much as possible.

Enforcement

We remain committed to a robust enforcement and compliance program to prevent fraud and manipulation. The Commission pursues cases covering a wide variety of potential market abuses and bad behavior, ranging from more common fraud and abuse like Ponzi schemes or precious metal scams that target retirees, to complex manipulation schemes driven by sophisticated, electronic trading strategies, to price fixing or benchmark manipulation through collusion among large traders. In just the last few weeks, we have announced some significant new cases.

Last month, the agency along with our colleagues at the Department of Justice, the U.K. Financial Conduct Authority and New York's Department of Financial Services announced settlements with Deutsche Bank over charges of false reporting and manipulation of LIBOR, a critical, global benchmark interest rate, upon which trillions of dollars of contracts are indexed. The Commission brought the first LIBOR case in 2012, and collectively, the Commission has imposed over \$4 billion in penalties against 13 banks and brokers to address LIBOR and foreign exchange benchmark abuses. In a separate action, the Commission and the Department of Justice brought civil and criminal charges against an individual who we believe engaged in spoofing and sought to manipulate the E-mini S&P 500 futures on repeated occasions, at times successfully. His activity contributed to the order imbalance in trading in E-mini S&P 500 futures that contributed to market conditions that led to the flash crash of 2010. We worked closely not only with the Justice Department, but also the FBI, the U.K. Financial Conduct Authority and Scotland Yard on this case.

As these cases illustrate, we will do everything in our power, and within our resources, to pursue those who attempt to engage in fraud or manipulation in our markets. It is essential that our markets operate with integrity and fairness for all market participants.

The 2016 Budget Request Advances Key Commission Priorities

The 2016 Budget Request is focused on advancing key mission priorities. Of the requested \$72 million increase, nearly \$28 million is allotted for additional information technology investments that will help to modernize the Commission's capabilities. This would supplement the approximately \$51 million we plan on spending on technology in FY 2015. The remaining \$44 million of the increase would provide for an additional 149 FTE for related mission-activity support, specifically targeting critical areas such as surveillance, enforcement, examinations, registration, and compliance, each described in more detail below.

Surveillance

The 2016 Budget Request seeks \$62.4 million for surveillance, an increase of \$5.9 million and 42 FTE over the FY 2015 enacted level. The Commission must enhance its surveillance capabilities to keep pace with the growth and increasing technological sophistication of the markets. Effective surveillance is essential to detect excessive risk, fraud, abusive practices, and manipulation.

The days when market surveillance could be conducted by observing traders in floor pits are long gone. Today, not only is almost all trading electronic, but in many products a majority is conducted through highly sophisticated automated trading programs. The Commission is

responsible for overseeing the markets in over 40 physical commodities, as well as a wide range of financial futures and options products based on interest rates, equities, and currencies. There are over 4,000 actively traded futures and options contracts and thousands more subject to our oversight when all tenors and associated options are included. On a typical day, there may be 750,000 transactions in Treasury futures and more than 700,000 in just the E-mini S&P 500 contract, the most active equity index future. And this does not include the approximately 7 million open swaps reported to SDRs. In just a single commodity category such as crude oil, there are typically hundreds of thousands of transactions every day. Transactions are only part of the picture, however. In today's high speed markets, manipulation and fraud are often conducted using complex strategies involving bids and offers, which far outnumber consummated transactions. Each day in the Treasury futures market, for example, there can be millions of bids and offers.

Successful market surveillance activities require us to have the ability to continually receive, load, and analyze large volumes of data. This requires a massive information technology investment, sophisticated analytical tools that we develop for these unique environments and experienced professionals who can identify potential problems and engage in further inquiry.

Moreover, the swaps market presents different challenges than the futures and options market with respect to surveillance. This is because there are multiple trading platforms so data must be analyzed across platforms. There is also considerable voice-driven activity and complexities to the execution and processing of trades that do not exist in the vertically integrated futures markets that require different surveillance perspectives. Aggregating data to understand participants' positions across futures and swaps markets is particularly challenging.

Whether in futures, options, or swaps, market surveillance is not simply dependent on sophisticated technological systems. We must have experienced personnel who understand the markets we oversee, who can discern anomalies and patterns and who have the experience, judgment, and skills to investigate possible infractions. There is great variation among the various products traded in our markets, variation which requires specialized knowledge: The market structure, trading patterns, and complexities of the crude oil market are quite different from that of soybeans or any other agricultural product, and each commodity market itself has its own characteristics.

In addition to market surveillance, the Commission must oversee the risk being taken on by clearinghouses, individual clearing firms, and large market participants. We do this by continually monitoring their customer and house positions and margining practices. Given the global nature of our markets, our surveillance personnel examine data from CFTC-registered clearinghouses that are located abroad, and communicate frequently with regulators in other jurisdictions. These teams also look through at large customer positions being held at or managed by intermediaries, and they aggregate customer data across clearinghouses. Today, for example, 36 firms hold more than \$500 million each in customer funds, and 10 of these firms hold more than \$10 billion each in customer funds. Failure or trouble at any one firm, particularly a larger firm, could seriously disrupt our markets. On-site examinations are an important component of adequate surveillance, but we are limited as to the frequency of these examinations given the small size of our staff.

Without the requested increase in surveillance personnel and resources, the Commission will be severely limited in its ability to detect fraud and manipulation, market abuses, firms in trouble, or other improper behavior, thereby significantly increasing the potential costs and risks to our markets and our financial system generally.

Enforcement

The Commission requests approximately \$70.0 million and 212 FTE for enforcement activities, an increase of \$20.7 million and 48 FTE over the FY 2015 enacted level. There is nothing more important to maintaining market integrity and protecting customers than a robust enforcement program. As I noted earlier, the markets we oversee continue to grow in size and sophistication, and our challenge is that for each case the Commission initiates, there are many that we cannot investigate because of resource constraints.

Some cases can require large amounts of resources due to their inherent complexities, document-intensive nature, or the ability of resource-rich defendants to prolong litigation. A recent case that arose as a result of the Peregrine fraud, for example, lasted more than two years and required more than 4,800 hours of staff time. The MF Global litigation is ongoing, more than 3 years after the firm collapsed. The LIBOR and foreign exchange benchmark cases – in which, as I noted above, the Commission obtained an aggregate of over \$4 billion in penalties against several of the world’s largest banks for manipulation of these benchmarks – involved intensive reconstruction of communications and trades requiring substantial document and email and chat room reviews, analysis, outside experts and reconstructing timelines.

In particular, the Commission anticipates more time-intensive and inherently complex investigations due to innovative products and practices within the industry, including the use of automated and high frequency trading, and the global nature of the swaps marketplace. We are also experiencing an increase in international enforcement investigations in all of our markets. At the same time, we must do all we can to deter unscrupulous fraudsters who target unsuspecting investors through scams, tricks and schemes.

Although the effectiveness of our enforcement efforts is best measured by the quality, breadth and effect of the cases pursued, quantitative metrics give some picture of the activity. The CFTC filed 67 new enforcement actions during fiscal year 2014. We opened more than 240 new investigations. In fiscal year 2014, the agency obtained \$3.27 billion in sanctions, including \$1.8 billion in civil monetary penalties and more than \$1.4 billion in restitution and disgorgement. Already in fiscal year 2015, the agency has obtained \$2.5 billion in sanctions. An increase in our enforcement efforts is a good use of taxpayer dollars. We need to be able to prevent and punish abusive and fraudulent behavior, especially preventing losses to consumers whose customer funds are misappropriated, or to retirees whose savings are stolen through scams, or to our economy, when the efficiency and integrity of our markets is damaged by manipulation and fraudulent trading.

Examinations

The Commission requests \$35.4 million and 135 FTE for examinations, an increase of \$6.7 million and 21 FTE over the FY 2015 enacted level. Regular examinations, in concert with the Commission's surveillance and other activities, are a highly effective method to maintain market integrity so that American businesses can rely on these markets. This activity includes direct examinations performed by Commission staff and oversight of examinations performed by the self-regulatory organizations.

Among the most important examinations that the Commission conducts are those of clearinghouses, which, as noted, have become critical single points of risk in the global financial system. Two clearinghouses under the Commission's jurisdiction have been designated as systemically important by the Financial Stability Oversight Council, and the Commission is responsible for the oversight of twelve others. Five clearinghouses are located overseas, including some that are extremely important to our markets given the volume of swaps and futures cleared for U.S. persons. The Commission currently examines the two systemically important clearinghouses once a year. But the Commission lacks the resources to engage in annual examinations of other clearinghouses, and to conduct a greater number of in-depth examinations overall.

A typical examination of a systemically important clearinghouse will involve a team of professional staff for the better part of six months. For other clearinghouses, the team will be smaller but the time commitment will be the same. Examinations are resource-intensive, and they form a critical part of our supervisory program for clearinghouses.

The Commission is also responsible for examining other critical infrastructure in our financial markets, including 15 active exchanges, 22 swap execution facilities, and 4 swap data repositories. These examinations are an important investment in the safety and integrity of our financial and commodity markets.

Moreover, as I noted earlier, cybersecurity is a major risk to our financial system today, and therefore we must devote greater resources to this important challenge. We must also engage in regular examinations of clearing firms. Current market conditions like low interest rates and low volatility have increased the risk profiles of many of these firms. And concentration in the industry means that today only 20 firms hold \$225 billion in customer funds, or approximately 91 percent of total customer funds for the futures and cleared swaps industries. The Commission must examine whether clearing firms employ effective risk management techniques, have appropriate compliance monitoring and retain adequate levels of liquidity.

There are other entities that the Commission is responsible for examining, such as swap dealers. The recent volatility in the Swiss franc underscores the importance of examining retail foreign exchange dealers. We must be able to conduct not only annual or periodic examinations, but also other reviews triggered by unexpected incidents so that we can address the concerns of the businesses and individuals who use these markets. Without the requested level of funding, the CFTC will lack sufficient resources to conduct these examinations, which puts the markets and market participants at risk.

Registration and Compliance

The Commission requests \$17.8 million and 63 FTE for registration and compliance activities, an increase of \$1million and 3 FTEs over the FY 2015 level. The Commission's ability to analyze registrations in a timely and thorough manner is critical to market efficiency and confidence. The Commission's responsibilities have greatly expanded in this area with nearly two dozen SEFs and over 100 swap dealer registrants. In light of the increasing globalization of the markets and changes made in Dodd-Frank, the Commission has applications for registration from 21 foreign boards of trade. The Commission is also considering applications for registration from five DCOs, and must begin to review petitions for exemption from DCO registration from several foreign clearinghouses this year. We expect to see additional applications in the future.

The Commission must also be able to respond to product and market innovation by carrying out registration reviews efficiently. A lack of adequate funding impairs the Commission's ability to attract and retain the experts who understand the markets and who are needed to review registrations and carry out compliance oversight in a timely and thoughtful manner, and can result in delay, ineffective customer protection, regulatory uncertainty, and higher legal and compliance costs for registrants – severely impacting the efficiency, integrity, and attractiveness of our markets.

Data and Technology

The 2016 Budget Request includes \$108 million for the data and technology activities, consisting of \$79 million for information technology purchases (*e.g.*, hardware, software, and contractor services), and approximately \$29 million for staffing and other indirect costs. This is an increase of approximately \$28 million from the FY 2015 enacted level. Data and technology accounts for almost 40 percent of the agency's requested \$72 million budget increase.

The Commission's data and technology budget comprises several elements. We must expand our data operations and collections systems to meet our vastly expanded data collection responsibilities as well as the increasing technological complexity of our traditional markets. Data, and the ability to analyze and report data, are more important than ever in the derivatives markets and in CFTC's ability to oversee those markets; therefore, data understanding and ingestion is the priority for the Commission's resources. We currently receive over 300 million records per day, and our data needs (intake, storage) are increasing annually by 35 percent.

The Commission must be able to aggregate various types of data from multiple industry sources, such as DCMs, SEFs, SDRs, and DCOs across multiple markets (*e.g.*, futures, exchange-traded swaps, and off-exchange swaps). The increasing complexity, volume, and interrelations of the data set will require significantly more powerful hardware such as high performance computing systems to support business analytics.

Our infrastructure and services must also be expanded to support the growth in the agency. This includes basic computing, printing, voice, and data communications, and it requires expansion of storage, server, telecommunications, and network capacity; implementation of DHS-mandated cybersecurity measures; and a refresh of end-of-life equipment. We must also enhance our

operations, platforms, and systems across all divisions. This includes legal, technology systems, and forensics support systems for enforcement as well as surveillance systems. It includes business process automation systems, public website operations, and management and administrative support systems.

Without the requested level of funds, the Commission will not have sufficient capabilities to fulfill the critical mandates of the agency, directly impacting the Commission's ability to protect market participants from fraud, manipulation, and abusive practices, and to protect the public and the U.S. economy from systemic risk.

Relationship with the National Futures Association and other SROs

Finally, I want to note that our budget request reflects the fact that we are working with the self-regulatory organizations, including in particular the National Futures Association (NFA), so that they can take on further responsibilities, subject to our general oversight. The NFA and other SROs are a very important part of the overall regulatory framework. We work closely with them. In particular, recently, we worked very closely with the NFA when the Swiss franc was unpegged, to monitor potential problems at retail foreign exchange dealers. We are also working with them now on changes to the rules governing such firms to insure better protection of customers.

Since I took office, we have been working to have the NFA and other SROs take on additional responsibilities, including with respect to review of required filings and financial information of futures commission merchants and swap dealers, assistance with examinations, review of swap valuation disputes, and other matters. This will allow us to focus our own resources on other priorities. Of course, it is vital that the Commission still oversee the work of the SROs. That means regular engagement and review of their activities. But by having them take on greater responsibility we can insure better protection of the public interest.

Conclusion

Thank you for inviting me today. The Commission is grateful to this subcommittee for its support of the agency's work. The 2016 Budget Request is designed to enable the Commission to continue making progress fulfilling its responsibilities to the American public to oversee our nation's futures, options, and swaps markets, so that we help make sure our markets continue to thrive and contribute to economic growth into the future. I look forward to continuing to work with you on this important responsibility.

I look forward to answering any questions you may have.