Senator Feinstein Criticizes CFTC for Failure to Perform Oversight, Renews Call for Increased Transparency in Energy Markets

- Senator Feinstein says record $6 billion Amaranth's hedge fund loss underscores the need for increased accountability for energy trading markets -

September 27, 2006

Washington, DC – Citing recent news reports about the record $6 billion collapse of a natural gas hedge fund managed by Amaranth Advisors LLC, U.S. Senator Dianne Feinstein (D-Calif.) today criticized the Commodity Futures Trading Commission (CFTC) for its failure to properly perform its oversight responsibility for energy trading markets.

Senator Feinstein also renewed her call for passage of legislation she has sponsored to increase transparency and accountability in energy trading markets for oil and natural gas. The bipartisan measure would give the CFTC the means to effectively exercise its existing anti-fraud and anti-manipulation authority over energy commodities traded on U.S. exchanges.

On September 18, 2006, Amaranth announced that, under Brian Hunter who managed the company's global energy and commodities unit, the firm's previously undisclosed speculation in natural gas trading had resulted in a $6 billion loss. Among other clients who suffered massive setbacks, the collapse of the hedge fund reportedly cost the County of San Diego as much as $87 million in investments set aside for employee pensions.

"I see no evidence that the CFTC has done anything throughout this whole affair," Senator Feinstein said. **"The CFTC consistently says they do not need additional authority to prevent manipulation in the over the counter markets. So if that's the case, where were they before Amaranth's Mr. Hunter bet $6 billion on natural gas futures? How many times do we have to learn this lesson? We need transparency in and federal oversight of our energy markets. We need to pass my legislation without delay."**

<u>Oil and Gas Trader's Oversight Act</u> (S.2642)

Specifically, the bill would:

- Require traders on exempt electronic trading facilities (e.g., InterContinental Exchange, Houston Street) to keep records and report large positions carried by their market participants in energy commodities for five years or longer. These are the same requirements that apply to traders that do business on NYMEX;

- Require traders to provide such records to the CFTC or the Justice Department upon request; and

- Require persons in the United States, who are trading energy commodities that are delivered in this country on foreign futures exchanges, to keep similar records and report large trades.

The bill is also sponsored by Senators Olympia Snow (R-Maine), Carl Levin (D-Mich.), Maria Cantwell (D-Wash.), Tom Harkin (D-Iowa), Barbara Mikulski (D-Md.), Barbara Boxer (D-Calif.), Jeff Bingaman (D-N.M.), Byron Dorgan (D-N.D.), Frank Lautenberg (D-N.J.), Jack Reed (D-R.I.), Russell Feinsgold (D-Wis.), and Joseph Lieberman (D-Conn.).

Background

Currently, the vast majority of energy trades occur on two markets – the New York Mercantile Exchange (NYMEX) and on electronic exchanges such as the InterContinental Exchange (ICE). NYMEX is regulated by the Commodities Futures Trading Commission (CFTC). Traders must keep records for five years and report large trading positions to the CFTC. There is an audit trail. They are also subject to other federal regulations, including limits on how much of a given commodity can be traded over a single day.

By contrast, electronic exchanges such as ICE are largely unregulated. Traders are not required to keep records or report large trading positions. There is no audit trail. It is estimated that up to 80 percent of our energy commodities are traded on ICE. As a result, the federal government has little or no information on what is taking place in our energy markets, including whether there are illegal activities.

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