

**United States House of Representatives**  
**Committee on Agriculture**  
**Statement of Walter L. Lukken**  
**President and Chief Executive Officer**  
**FIA**

Chairman David Scott, Republican Leader G.T. Thompson, and Members of the Committee, thank you for the opportunity to testify about the US derivatives market structure and the unique proposal set forth by FTX US.

I am President and CEO of the FIA, a leading global trade organization for the futures, options and centrally cleared derivatives markets. As someone who also served on the Commission for many years, I am proud of the CFTC's long history of supporting innovation and competition in the derivatives markets.

In fact, Congress wisely instructed the CFTC in its mission to, not only uphold strong protections for customers and police the integrity of the markets, but also "promote responsible innovation and fair competition" among market participants. In crafting this balanced mission, this Committee was careful in making sure innovation and competition were advanced responsibly and fairly without jeopardizing the integrity or financial stability of the markets or the protections afforded to customers.

Today, we are at an inflection point that requires us to carefully consider the benefits of an alternative clearing structure and ensure it does not compromise the battle-tested protections and checks of the existing structure afforded to customers and markets. The CFTC is now considering a proposal by FTX that would replace the traditional distributed risk clearing model that utilizes Futures Commission Merchants (FCMs) with a more automated and centralized one that does not utilize intermediation.

Specifically, the FTX direct clearing proposal would, for the first time, combine margined futures with near real-time margining, 24/7 auto liquidation of defaulting customers, and a self-funded CCP default fund without the benefit of FCM's risk management processes.

It is important to point out that FTX's proposal would permit futures trading in any underlying asset class transacted by any type of customer, including commercial hedgers. This requires us to view this proposal with an eye beyond retail cryptocurrencies. We must also consider the core users of our markets, including farmers, refiners, pension funds, and other main street businesses that use futures to hedge price risk in the real economy.

When contemplating such transformative change, FIA encourages policymakers to consider the fundamental guiding framework articulated in President Biden's recent Executive Order on digital assets: Same Business, Same Risks, Same Rules. FIA believes the CFTC must analyze FTX's proposal against the many important customer protections and risk management functions that registered FCMs currently provide the marketplace.

As agents for their customers, FCMs hold various regulatory responsibilities including vetting customers on the appropriateness of these leveraged products, policing clients for money laundering, segregating customer funds, guaranteeing customer trades, holding significant regulatory capital against those trades, contributing their own "skin in the game" capital to the central counterparty ("CCP") default fund, and agreeing to further assessments should the CCP default fund need replenishment.

Today U.S. registered FCMs hold roughly \$175 billion in regulatory capital that backstops their guaranty of customer trades and serves as a first line of defense against a more serious contagion event that could spread to a CCP and beyond. Additionally, these FCMs contribute another \$15 billion to clearinghouse default funds that serves to incentivize careful risk management and distribute risk among highly capitalized institutions during a stressed market crisis.

FIA also believes there needs to be further analysis of the FTX risk model in extreme but plausible scenarios, especially for large commercial participants in other asset classes beyond retail digital currencies. Given the model relies on continuous liquid markets that are open 24/7, questions remain around the market impact of the auto-liquidation feature for the close-out of large positions in less liquid markets. We must ensure that the model does not trigger a broader fire sale in the central price discovery market that harms hedgers and exacerbates further market disruption.

### **Conclusion**

FIA supports the efforts of FTX to further advance real-time risk management in clearing and bring greater competition to our markets. Their proposal has advanced a healthy debate in our industry. However, we believe that further analysis and information are needed on the FTX proposal, and we look forward to the deliberative process of the CFTC that will help bring additional clarity and information to this unique clearing model.

**Committee on Agriculture  
U.S. House of Representatives  
Information Required From Nongovernmental Witnesses**

**House rules require nongovernmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.**

**1. Name:** Walt Lukken

**2. Organization you represent:**

FIA

**3. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:**

Before joining FIA as President and CEO in 2012, I was Chief Executive Officer of New York Portfolio Clearing, the capital-efficient derivatives clearinghouse jointly owned by NYSE Euronext and the Depository Trust and Clearing Corp.

Before joining the private sector in 2009, I served as Acting Chairman of the Commodity Futures Trading Commission for 18 months, a period that included the financial crisis of 2008 and as a CFTC Commissioner since 2002.

Prior to joining the CFTC, I served for five years as counsel on the professional staff of the U.S. Senate Agriculture Committee.

**4. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:** \_\_\_\_\_

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**5. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:**

I am President and Chief Executive Officer of FIA, the leading global trade organization for the futures, options and centrally cleared derivatives markets.

**PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF  
TESTIMONY.**

## Truth in Testimony Disclosure Form

In accordance with Rule XI, clause 2(g)(5)\* of the *Rules of the House of Representatives*, witnesses are asked to disclose the following information. Please complete this form electronically by filling in the provided blanks.

Committee: Agriculture

Subcommittee: \_\_\_\_\_

Hearing Date: 05/12/2022

Hearing Title :

"Changing Market Roles: The FTX Proposal and Trends in New Clearinghouse Models"

Witness Name: Walter L. Lukken

Position/Title: President and Chief Executive Officer, FIA

Witness Type: ☐ Governmental ☒ Non-governmental

Are you representing yourself or an organization? ☐ Self ☒ Organization

If you are representing an organization, please list what entity or entities you are representing:

FIA

### **FOR WITNESSES APPEARING IN A NON-GOVERNMENTAL CAPACITY**

Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.

Are you a fiduciary—including, but not limited to, a director, officer, advisor, or resident agent—of any organization or entity that has an interest in the subject matter of the hearing? If so, please list the name of the organization(s) or entities.

No

**Please list any federal grants or contracts (including subgrants or subcontracts) related to the hearing's subject matter that you, the organization(s) you represent, or entities for which you serve as a fiduciary have received in the past thirty-six months from the date of the hearing. Include the source and amount of each grant or contract.**

N/a

**Please list any contracts, grants, or payments originating with a foreign government and related to the hearing's subject that you, the organization(s) you represent, or entities for which you serve as a fiduciary have received in the past thirty-six months from the date of the hearing. Include the amount and country of origin of each contract or payment.**

N/a

**Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.**

- ☒ I have attached a written statement of proposed testimony.
- ☒ I have attached my curriculum vitae or biography.

\* Rule XI, clause 2(g)(5), of the U.S. House of Representatives provides:

(5)(A) Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof.

(B) In the case of a witness appearing in a non-governmental capacity, a written statement of proposed testimony shall include— (i) a curriculum vitae; (ii) a disclosure of any Federal grants or contracts, or contracts, grants, or payments originating with a foreign government, received during the past 36 months by the witness or by an entity represented by the witness and related to the subject matter of the hearing; and (iii) a disclosure of whether the witness is a fiduciary (including, but not limited to, a director, officer, advisor, or resident agent) of any organization or entity that has an interest in the subject matter of the hearing.

(C) The disclosure referred to in subdivision (B)(iii) shall include— (i) the amount and source of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) related to the subject matter of the hearing; and (ii) the amount and country of origin of any payment or contract related to the subject matter of the hearing originating with a foreign government.

(D) Such statements, with appropriate redactions to protect the privacy or security of the witness, shall be made publicly available in electronic form 24 hours before the witness appears to the extent practicable, but not later than one day after the witness appears.