Why are Congressional Agricultural Committees Given Oversight of the MF Global Hearings?

By Mark Shore

Over the years I've often heard the question "why are the U.S. House and Senate Agricultural committees given jurisdiction and oversight of financial firms?" This question sometimes appears in the managed futures course I teach at DePaul University.

With the testimony of Jon Corzine former CEO of MF Global before the House Agricultural Committee on December 8th, 2011 and his testimony with the Senate Agricultural Committee on December 13th, 2011 regarding the bankruptcy of MF Global, the 8th largest U.S. bankruptcy, this would be a good opportunity to discuss this question.

Let's start with the basics:
The U.S. Senate Agriculture, Nutrition and Forestry Committee maintains jurisdiction on 17 topics including agricultural economics and research, agricultural commodities and price stabilization. Four of the five subcommittees including the Subcommittee on Commodities, Markets, Trade and Risk Management have oversight of the Commodity Futures Trading Commission (CFTC).

The U.S. House of Representatives Committee on Agriculture has jurisdiction of oversight on 20 various topics including agricultural economics and research, stabilization of agricultural prices and commodity exchanges. The General Farm Commodities and Risk Management subcommittee maintains oversight of the commodity exchanges.

Of course this begs the question, why are these committees given jurisdiction over commodity exchanges and the CFTC?

To find the answer, let's take a walk down history lane:
By the 1840s agricultural prices were experiencing price volatility. We can use Chicago as an example of this. Farmers would bring their crops to market and try to sell it. If they couldn't sell the crops, they sometimes burned it or dumped it into Lake Michigan. By 1848 the Chicago Board of Trade (CBOT) was organized with the intention to give farmers and other grain market participants the ability to manage price volatility risk. In 1898 the Butter and Egg Board began and renamed in 1919 as the Chicago Mercantile Exchange (Now the CME Group).

February 18th, 1859 the Governor of Illinois signs an act giving the CBOT a corporate charter. The act empowers the CBOT as a self-regulatory authority; it standardized grades of grain and gave CBOT grain inspectors binding decision of grain quality. Some have debated if 1859 is considered the beginning of futures trading of CBOT wheat, corn and oats.

The United State Dept of Agriculture (USDA) was signed into law under President Lincoln on May 15th, 1862.

By the 1880s many futures commodity exchanges were organizing around the country. Over the next 40 years, an estimated 200 bills were introduced in congress to regulate, ban and tax futures trading. Some bills were debated in the Supreme Court as unconstitutional. In the 1920s the Federal Trade Commission released a seven volume grain trade and futures trading report. Some of the volumes discussed the need for regulation of futures trading.

On September 21st, 1922 the Grain Futures Act creates a Grain Futures Commission within the USDA to regulate grain futures trading. The Secretary of Agriculture is authorized to designate futures exchanges "contract markets" based on meeting certain standards.

June 15th, 1936 the Commodity Exchange Act replaces the Grain Futures Act. The Commodity Exchange Act broadens the oversight beyond grains and requires Futures Clearing Merchants (FCMs) to segregate client accounts. MF Global is currently under investigation for violation of client's funds segregation.

As the House and Senate agricultural committees have oversight on agricultural related items and on the USDA and the Secretary of Agriculture, they logically have oversight on the futures exchanges. Until the early 1970s all futures contracts were commodity derivatives. 1970 the International Commercial Exchange was founded and began trading the first foreign currency contracts, but failed and closed in 1973. The CME began trading currency contracts in May1972 and blazed an incredible path of success for other financial futures contracts.

The USDA was empowered with regulation of the exchanges until 1975. October 24th, 1974 the Commodity Futures Trading Commission Act of 1974 is signed into law by President Ford. April 1975 the USDA hands over futures trading regulation to the CFTC. By 1979 the CFTC begins to regulate Commodity Pool Operators (CPOs) and Commodity Trading Advisors (CTAs).

This brings us back to the future or futures if you will. One could argue it's a legacy reason for these agricultural committees to have oversight of futures exchanges and trading. However, as long as commodities are traded on exchanges or via financial firms, it would be logical for these committees to have oversight in this area. This explains why members of the agricultural committees are involved in drafting trading/ derivative laws and why the CFTC and various financial firms often testify before these committees.

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