

STATEMENT OF SCOTT D. O'MALIA
Before the
United States Senate Committee on Agriculture, Nutrition and Forestry
September 30th, 2009

Madame Chairman, Ranking Member Chambliss and members of the Committee thank you for the opportunity to testify today. Madame Chairman, I would like to congratulate you on becoming Chairman of this Committee.

I am grateful to appear before you as President Obama's nominee to serve as a Commissioner to the Commodity Futures Trading Commission (CFTC). I would like to thank Senator Bennett for his support and willingness to introduce me to the Committee. As a Michigan native, I would also like to thank Senator Stabenow for her support as well.

Before, I begin I would like to introduce my family. I am joined by my wife, Marissa and three daughters Kelsey, Claire and Macey. I would also like thank my parents, John and Bev O'Malia, for joining me here today. I would not have this opportunity today if it were not for the support of my wonderful family.

I am honored to be nominated by the President to serve as a Commissioner to the Commodity Futures Trading Commission. Given the fact that this country has experienced the worst financial meltdown since the great depression, I recognize the enormous responsibility of this office.

Like everyone in this nation, I too have lost value in my home, retirement and college savings. I am sensitized to the hardship this crisis has caused families across the country. This experience reinforces my strong belief that our nation's financial regulators must be vigilant in their oversight responsibilities to ensure transparency and accountability in our markets. Furthermore, regulators must recognize the inherent risk associated with the trading products which have contributed to this crisis and they must commit to doing all they can to maintain stability and security of our financial markets.

I believe the oversight of our financial institutions and markets must be strengthened. I am committed to exposing the underlying risk and trading practices that might further destabilize our economy with serious impacts on our financial, energy and agriculture markets. The stability of our futures and commodities markets require that trading occur among reliable parties with as much information as possible. I am also concerned that extensive leverage and uncertain collateral values could destabilize these markets.

Madam Chairman, for the past six years, I have worked in the Senate serving on the Senate Energy and Natural Resources Committee and the Senate Appropriations Committee. During this time, I have focused my work on energy policy with the goal of reducing our nation's dependence on foreign energy resources and expanding U.S. investment in clean energy technologies, including improving the effectiveness of the Department of Energy's Loan Guarantee program.

Over the past three years, the Energy and Water Subcommittee has authorized and appropriated over \$50 billion worth of self-financed loan guarantees and invested tens of billions of dollars into research and development to support the deployment of clean energy technology.

Transformation of our energy sector requires more than federal research assistance. It requires billions of dollars in new investments that will occur only if investors believe energy markets are stable, provide reliable price transparency and offer the opportunity to hedge their commercial risk.

Prior to joining the Senate Energy Committee, I spent two years in the electricity sector. This experience provided an invaluable education regarding the devastating impacts a flawed market design and illegal trading behavior can have on consumers. As a result of this experience, I am resolved to prevent this catastrophe from being repeated.

I joined Mirant in February 2001, as a director of federal affairs focused on federal energy policy. I did not work for a trading desk or for a business unit that managed generation assets. By the time I arrived, it was already apparent the California electricity market was dysfunctional. California had experienced a difficult summer with record energy prices and blackouts in June, 2000. By November 2000, FERC had determined that the California market was flawed, making it possible for manipulative trading behavior to cause an imbalance in supply and demand that made electricity rates unjust and unreasonable.

In response to the trading behavior uncovered in 2001, I worked with Mirant's Chief Risk Officer and five other energy companies to establish the Committee of Chief Risk Officers (CCRO). This organization was created to prevent and avoid the trading abuses used by some in the industry to manipulate the California and Western energy markets.

The CCRO established industry wide trading protocols, improved price disclosure, required clearing and standardized contracts and imposed a corporate trading code of conduct. These standards would give regulators, consumers and investors a better view into the business and operations of these companies.

I do recognize that many of the same reforms implemented by the Committee of Chief Risk Officers are now embodied in the financial overhaul proposed by the Administration, but on a larger scale. Both efforts seek to improve transparency of Over-the-Counter markets, reduce systemic risk and set trading standards to reduce opportunities for excessive speculation and manipulation. A key component of both efforts has been the utilization of clearing to reduce counterparty risk and allocate capital more efficiently.

My experience reaffirms my strong belief that regulators are critical in ensuring that markets operate in a fair and transparent manner. To achieve this, regulators must be provided with the appropriate authority and tools to respond to the constant evolution of market behavior and products.

As I stated in the beginning, I am sensitive to the impacts the financial crisis has had on families across the country. I also understand the consequences to all of us if markets, which are designed to offer protection from risk, are manipulated and thereby expose our financial system to greater peril.

Drawing on my extensive energy background, I believe I can make a significant contribution to the Commission. If confirmed, I will work with the other Commissioners to ensure markets continue to offer consumers and producers the opportunity to cost-effectively hedge their commercial risk and facilitate the dissemination of timely and accurate market price data. I will work to ensure the CFTC uses all of its legal authorities to curb excessive speculation and prevent abusive trading practices, including fraud and manipulation.

I would like to thank the Committee for holding this hearing and considering my nomination. It would be an honor and a privilege for me to serve as a Commissioner to the CFTC.

Madam Chairman, I would be pleased to answer any questions.

Thank you.