U.S. House of Representatives
Committee on Natural Resources
Washington, DC 20515

September 19, 2012

Chairman Gary Gensler
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Chairman Gensler,

I write to you today regarding the strange and disconcerting events that occurred Monday in our oil commodities markets. As you know, at approximately 1:54 PM EST, the price of West Texas Intermediate (WTI) crude oil on the New York Mercantile Exchange (NYMEX) plummeted by more than \$3 in less than a minute, dropping from over \$98 a barrel to under \$95 a barrel. This event, which some analysts and reporters are already calling a "flash crash" in oil, saw a sudden and dramatic spike in trading. According to the Wall Street Journal, "Some 12,500 contracts changed hands in a minute, compared with less than 500 a minute previously." At approximately the same time, there was a similar plunge in Brent crude oil on Europe's Intercontinental Exchange, with prices falling several dollars within minutes in extremely heavy trading. Indeed, CNBC reports that "in 60 seconds at 1755 GMT, the market traded futures contracts equivalent to 10.25 million barrels of crude, more than the entire daily output of Saudi Arabia, and over half of all the refined products consumed in the United States every day."

Twenty-four hours later, it remains unknown what caused this flash crash. Speculation is running rampant, with commentators positing that the sell-off could have been a single massive hedging event, a "fat finger" accidentally causing a large trade, or rapid trading in response to rumors of a possible release of the Strategic Petroleum Reserve. Numerous analysts and commentators, including CFTC Commissioner Bart Chilton, have specifically fingered high-frequency trading computers as the culprit, arguing that with trading algorithms automatically caused a cascade of sell-orders at the speed of light without direct human input. Commissioner Chilton stated that he is investigating the incident and also suggested Monday that these "wild price swings" may be occurring more frequently "due to predatory cheetah technology that's in markets today. . . It might be legal, but when these cats get out of hand, they scare off everybody else in the jungle . . . ."

If large Wall Street computers are effectively running our oil markets, this high-frequency trading "cheetah" technology may really be nothing more than "cheater" technology. Wall Street computers could be manipulating the oil markets, and consumers on Main Street are paying the price.

Like Commissioner Chilton and others, I am deeply concerned about what this event means for our oil markets. The 2010 Flash Crash in equity markets severely damaged confidence and sent a signal to ordinary investors that they are at a disadvantage. If high-frequency traders are now causing similar crashes in the commodities markets, both the investment community and the general public will lose confidence that the markets are working properly. Additionally, if high-frequency trading is becoming a dominant player in the market, this event will be a precursor to increased volatility in the future. An uptick in volatility would make it more difficult for producers, manufacturers, and users to effectively hedge their positions, thereby undermining the fundamental reason that commodities markets like NYMEX exist.

I believe that it is critical that we get to the bottom of this crash as soon as possible. I would therefore like to formally request that you and the entire Commission include within the investigation announced by Commissioner Chilton of Monday's oil price crash an examination of the larger issue of high-frequency trading's effects on the oil markets, and the effect of that trading on consumer prices. I also request that you provide me with the findings of any investigations of this subject by the CFTC or its individual Commissioners as soon as they become available.

Additionally, in order to better understand how our commodities markets are currently operating, I request that you respond to the following:

1) How prevalent is the use of high-frequency trading computers for the trading of energy commodities in the United States? What changes, if any, have occurred over the last 10 years with respect to the percentage and volume of energy commodities trades that are executed in this manner?
2) What CFTC rules currently govern the use of high-frequency trading computers to trade commodities? If so, what was the reasoning behind that decision?
3) Has the CFTC considered what impact high-frequency trading might have in contributing to artificial or excessive levels of volatility in our energy commodities markets?
4) If so, what measures does the CFTC believe need to be put in place to address such volatility? Are "circuit breakers" comparable to those in place in the nation's equity markets advisable to address these concerns, and if so, should the circuit breakers for energy commodities be tightened to address current trading practices?
5) Has the CFTC considered whether any other new rules or additional market oversight might be necessary to limit or restrain the use of high frequency trading for energy commodities? If so, what measures does the Commission recommend?

6) Are our energy commodity markets vulnerable to technical glitches from software errors? If so, what steps is the CFTC taking to remedy this vulnerability?

Thank you for your assistance and cooperation in this matter. Please provide me with a written response to these questions by October 2, 2012. If you have any questions, please contact Justin Slaughter on the Natural Resources Committee's staff at (202) 225-6065.

Sincerely,

Edward J. Markey

Edward J. Markey
Ranking Member
House Committee on Natural Resources