WASHINGTON - Congressman Spencer Bachus (AL-6), Ranking Member of the House Financial Services Committee, urged Chairman Barney Frank in a letter today to convene hearings on the role and growth of derivatives, including credit default swaps, in the capital markets.

Ranking Member Bachus stated that, “The Committee on Financial Services is well-positioned to oversee the development of sensible regulation of credit default swaps that recognizes the systemic risk posed by these instruments but also preserves their beneficial uses as a risk management tool for individual firms.”

Text of the letter follows.

December 17, 2008

The Honorable Barney Frank

Chairman

Committee on Financial Services

2129 Rayburn House Office Building

Washington, DC 20515

Dear Chairman Frank:

As a result of the recent turmoil in the credit and financial markets, the role that credit derivatives, including credit default swaps (CDS), have played in potentially contributing to and exacerbating the crisis have become well-known to many Americans. In recent weeks, *60 Minutes* has devoted two segments to these financial instruments and the potential systemic risk they pose to the U.S. financial system.

As of late November, there were approximately 2.3 million swaps contracts outstanding worth $31 trillion, according to the Depository Trust Clearing Corporation (DTCC). While the notional value of outstanding CDS contracts has dropped from more than $56 trillion because of market losses, the current outstanding value continues to exceed the combined market capitalization of the NYSE and NASDAQ.

On October 30, 2008, the DTCC successfully settled more than $500 billion in market participants' exposure from the September 2008 Lehman Brothers bankruptcy. The Federal Reserve Bank of New York has led efforts to create a central clearing house for these derivatives as well as automate their trading and settlement.

The Committee has not held any hearings specifically devoted to the growth of derivatives and the solutions proposed by multiple market participants to manage these instruments, nor has it conducted any significant oversight of the SEC's call to regulate these instruments. As the committee with jurisdiction over the Federal Reserve and its member banks, the U.S. equity, options and debt markets, derivative products written on equities and debt instruments, and the primary dealers that write these contracts, the Committee on Financial Services is well-positioned to oversee the development of sensible regulation of credit default swaps that recognizes the systemic risk posed by these instruments but also preserves their beneficial uses as a risk management tool for individual firms.

As you know, the Committee on Agriculture has held three hearings to review the role of credit derivatives in the U.S. economy. Accordingly, I am writing to request that as part of its consideration of regulatory reform in the 111th Congress, the Committee hold hearings on the use of credit default swaps and derivatives instruments in the capital markets; the private-sector solutions under consideration to manage the risk posed by these instruments; and the various proposals to regulate credit default swaps.

Thank you for the consideration of this request.

Sincerely,

Spencer Bachus

Ranking Member