

**Testimony of Michael A. Gooch, CEO of GFI Group Inc.
to the Agricultural Committee of the US House of Representatives**

February 3, 2009

I am Michael Gooch, Chairman and CEO of GFI Group, Inc. Thank you Chairman Peterson and Ranking Member Lucas for inviting us to testify today.

About GFI Group: I began my career in financial brokerage in London in 1978, emigrated to the US in 1979 and became a naturalized US citizen. I founded GFI Group in 1987 with \$300,000 of capital. The firm is now one of 5 major global "inter-dealer brokers" with approximately 1,700 employees on 6 continents and with 500 million dollars in shareholder equity. GFI Group is a US public company listed on the NASDAQ under the symbol "GFIG".

GFI Group and the other inter-dealer brokers operate neutral market places in a broad spectrum of credit, financial, equity and commodity markets both in cash instruments and derivatives. GFI group has a strong presence in many over-the-counter (or "OTC") and listed derivative markets and has a reputation as being the leader globally in Credit Derivatives. We function as an intermediary on behalf of our brokerage clients by matching their trading needs with counterparties having reciprocal interests. We are transaction agents to the markets we serve and do not trade for our own account.

We offer our clients a hybrid brokerage approach, combining a range of telephonic and electronic trade execution services, depending on the needs of the individual markets. We complement our hybrid brokerage capabilities with decision support service, such as value-added data and analytics products and post-transaction services including straight-through processing (or "STP") and transaction confirmations. We earn revenues for our brokerage services and charge fees for certain of our data and analytics products. We are also a leading provider of electronic trading software through our Trayport subsidiary, which licenses critical transaction technology in numerous product markets from energy to equities that is used by institutional market participants, such as futures exchanges and competing IDBs.

GFI is a global leader in numerous OTC derivatives markets. We have ranked as the number one broker for credit derivative since the market began over 11 years ago. In that time, GFI Group has brokered billions of dollars of credit derivative transactions that provides us with far more experience with the product than any exchange. In 2008, GFI was ranked as both the Number One Credit Derivative Broker and the Number One Commodity Broker.

About Inter-Dealer Brokerage:

I would like to take a moment to describe the market role played by inter-dealer brokers such as GFI. Inter-dealer Brokers (or "IDBS" as they are known)

are an established part of the global, financial landscape. GFI and its competitors, aggregate liquidity and facilitate transactions in both OTC and exchange transactions between major financial and non-financial institutions around the world. IDBs cross transactions over-the-counter in listed futures in equities, energy and financial markets and post them to recognized exchanges within stringent regulator-mandated reporting time frames. The leading IDBs offer sophisticated electronic trading technology that has been widely adopted in Europe and Asia. These European markets have functioned well in the wake of the credit crisis.

In the credit derivatives market, for example, millions of electronic messages are recorded and processed by IDBs in real time every business day. With the most sophisticated IDBs that handle the bulk of the inter-dealer business in Europe, Asia and the US, the technology is connected via API to the Depository Trust Clearing Corporation (DTCC) the main central warehouse for CDS trades with Straight through Processing (STP) to all the major credit derivatives dealers. The electronic ATS trading environment for inter-dealer OTC-CDS that is operating successfully in Europe and Asia could be replicated in the US immediately. At least 4 global regulated inter-dealer brokers have the ATS technology in place to achieve this now.

Most, if not all, of GFI's individual brokers of credit derivatives in the US are licensed, registered representatives regulated by the Financial Industry Regulatory Authority (FINRA). Such IDBs with FINRA registered representatives keep electronic copies of all communications supporting each credit derivatives transaction they cross and the bids and offers leading up to those trades. Trading data, in some cases, goes back as far as 1996.

About the Proposed Legislation:

As a major aggregator of liquidity in OTC derivatives, GFI supports this Committee's initiatives for greater transparency, central counterparty clearing and effective regulatory oversight. We believe that enhancing transparency and eliminating counterparty risk will be a major improvement in the CDS market structure that will ensure its role as a credit transfer tool for investors. We commend the Committee for its efforts to achieve these goals. We also support its efforts to provide the CFTC with greater regulatory oversight. We have a deep appreciation for the work of the CFTC. Our experience is that they are dedicated, competent, and hard working and have done an excellent job.

Nevertheless, the matter of central counterparty clearing is not a simple one. A central clearing mechanism requires a degree of standardization and price transparency not available for all instruments and all credits. Any clearing mechanism is only as good as its members in the event its initial clearing funds are exhausted. It is my opinion and I believe it is shared by many in the financial community that in the event certain major, global investment banks had failed

last September, then the clearing houses of the various futures exchanges would have failed too. The large banks and prime brokers represent the bulk of the open interest on the various futures exchanges and the gapping of markets that would have occurred overnight in such an outcome would have led to a call on the capital of the very firms that may have failed. To have illiquid credits in such clearing mechanisms would only have exasperated the problem. Since the large banks and prime brokers represent the bulk of the clearing capital at risk, it makes sense that a clearing solution provided by those banks with a high degree of transparency on pricing and mark to market makes the most sense.

We believe that the credit derivatives market could certainly benefit from a central counterparty. It would be a mistake, however, to presuppose that the entire market for credit derivatives operates only in the US and that a single vertical clearing and execution venue can be designated for the entire global market. Sixty (60%) percent of the inter-bank volume in credit derivatives is transacted outside of the United States. Central counterparty clearing in CDS is a complex issue that is under-estimated by those that propose or believe it can be achieved almost overnight. To successfully achieve OTC clearing, large inter-bank dealer and global co-operation will be required.

Notwithstanding the complexities of centrally clearing a global OTC credit derivative market, it is my view that the listed exchanges can play an important role in introducing simple vanilla futures contracts on the most liquid indexes and single names. Both cleared and un-cleared OTC and listed futures can co-exist as they do in most other financial markets.

Issues Raised by the Proposed Legislation

I would like to specifically address two Sections of the proposed legislation: Section 14 and Section 16.

We support the extension of CFTC regulation to the market for carbon offset credits and emission allowances under Section 14 of the Bill. As a major broker of European emissions credits, we are very familiar with the importance of an orderly, efficient and well regulated marketplace. Therefore, we do not see a reason why the proposed legislation requires all trades to be done on a Designated Contract Market (or "DCM") and not also on a CFTC-regulated "Derivatives Transaction Execution Facility" (or "DTEF"). We believe that the limitation of transactions to DCMs needlessly stifles competition leading to greater costs that are ultimately passed along to the consumer.

With regard to Section 16, we are very concerned that limiting participation in the Credit Derivatives market to entities with a direct interest in the credit being protected, i.e. elimination of naked interest, will kill the CDS market and significantly inhibit the liquidity of the credit markets, including the market for debt instruments such as corporate fixed income and bank loans. Just as third party

liquidity providers and risk takers are willing to buy and sell futures and options in agricultural products providing much needed liquidity for businesses in agriculture to hedge and offset risk, so do such risk takers enhance liquidity in credit markets. There is plenty of capital on the side lines today willing to take risk in credit without becoming direct lenders. This source of credit will not be available if the buying of credit derivatives is limited to those with a direct interest in the underlying instruments. That is because risk takers need to take risk on both sides of the market in order for there to be a liquid market.

Without question, new issuance of corporate debt cannot happen without a liquid, functioning bond market and, since credit derivatives are often more liquid than the market for the underlying bonds, it is clear that a functioning credit derivatives market is paramount for the unfreezing of credit markets. Killing the CDS market will contribute to an extended period of tight lending markets where credit will only be available to the most secure borrowers. CDS has become so integral to the functioning of credit markets that killing it will extend and deepen the current recession we are experiencing.

In conclusion, let me just say that the global market for credit derivatives is not murky or unregulated as some would have us believe. Rather, it is highly liquid and, potentially, quite transparent. It is today functioning well and will play an important role in the unfreezing of the credit markets and the recovery of the global economy. That critical role could be jeopardized if we do not sort out the half-truths and misperceptions surrounding credit derivatives and their market structure. It is only then that the discussion of improving the credit derivatives market through central clearing and electronic trading can be put in proper context.

Thank you for this opportunity to address you today. I will be happy to answer any questions you may have.

C.V. of Michael Gooch
Chairman of the Board and Chief Executive Officer, GFI Group, Inc.

Mr. Gooch has been GFI's Chairman and Chief Executive Officer since he founded the business in 1987. Prior to this, Mr. Gooch worked for Citibank, Refco Group, Bierbaum Martin, Harlow Meyer Savage and Tullet & Tokyo Forex. Mr. Gooch is the President and majority shareholder of Jersey Partners, the majority shareholder of GFI.