

February 28, 2011

**VIA ON-LINE SUBMISSION**

David Stawick  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, NW  
Washington, DC 20581  
[secretary@cftc.gov](mailto:secretary@cftc.gov)

Re: Confirmation, Portfolio Reconciliation and Portfolio Compression Requirements for Swap Dealers and Major Swap Participants (RIN 3038-AC96)

Dear Mr. Stawick:

CME Group Inc. ("CME Group"), on behalf of its four designated contract markets ("Exchanges" or "DCMs"), appreciates the opportunity to comment on the Commodity Futures Trading Commission's (the "CFTC" or "Commission") proposed rulemaking regarding Confirmation, Portfolio Reconciliation and Portfolio Compression (the "Release").<sup>1</sup> In the Release, the Commission seeks comment on proposed rules (the "Proposed Rules") that would implement the statutory framework for, among other things, standards for swap dealers and major swap participants relating to timely and accurate trade confirmation.

CME Group is the world's largest and most diverse derivatives marketplace. CME Group includes four separate Exchanges, including Chicago Mercantile Exchange Inc. ("CME"), the Board of Trade of the City of Chicago, Inc. ("CBOT"), the New York Mercantile Exchange, Inc. ("NYMEX") and the Commodity Exchange, Inc. ("COMEX"). The CME Group Exchanges offer the widest range of benchmark products available across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, metals, agricultural commodities, and alternative investment products.

CME includes CME Clearing, a derivatives clearing organization ("DCO") and one of the largest central counterparty clearing services in the world, which provides clearing and settlement services for exchange-traded contracts, as well as for over-the-counter derivatives transactions through CME ClearPort®.

The CME Group Exchanges serve the hedging, risk management and trading needs of our global customer base by facilitating transactions through the CME Globex® electronic trading platform, our open outcry trading facilities in New York and Chicago, as well as through privately negotiated transactions.

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<sup>1</sup> 75 Fed. Reg. 81519 (December 28, 2010).

CME is supportive of the general goals of improving the post-trade processing of swaps and ensuring timely and accurate confirmation of such data among counterparties. We agree with the overall approach taken by the Commission on this subject and with the goal of promulgating confirmation requirements that are effective, not duplicative and cost and time efficient to the industry. A major policy goal outlined in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") is to encourage the use of transparent and efficient structures such as clearinghouses. In the Release, the Commission specifically seeks comment on whether executing a swap on a swap execution facility ("SEF") or designated contract market ("DCM"), or clearing a swap through a DCO, should be deemed to satisfy the confirmation requirement. We urge the Commission to explicitly clarify in the final rules that the confirmation processes of such organizations for cleared swaps satisfy the requirements.

The Securities and Exchange Commission ("SEC") has recently proposed such an approach with respect to Trade Acknowledgment and Verification of Security-Based Swap Transactions ("Proposed SEC Rules").<sup>2</sup> In the Proposed SEC Rules, the SEC recognizes the unique role played by entities in the securities world comparable to DCOs; these proposed rules would enable security-based swap dealers and security based swap participants to satisfy trade acknowledgment and verification requirements if a clearing agency produces a confirm of each transaction and a trade is verified through procedures prescribed by a clearing agency.<sup>3</sup>

By enabling swap dealers and major swap participants to comply with the confirmation requirements and by specifically permitting DCOs to play this role in the final rules, the CFTC would be promoting a simple and cost effective way to implement the confirmation requirements. Each DCO that currently clears swap transactions would already possess the majority of transaction records that would be required to be maintained under the CFTC's rules. Any required records that are not currently maintained by a DCO that clears a swap transaction can easily be reported to such DCO at the time a transaction occurs. DCMs and SEFs that are matching standardized swaps transactions will have already established connectivity with DCOs for the purpose of clearing. As a result, from a cost standpoint, technology development expenses would be relatively limited.<sup>4</sup>

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<sup>2</sup> 76 Fed. Reg. 3859 (January 21, 2011).

<sup>3</sup> See Proposed SEC Rule 15Fi-2(b)(2) and Proposed SEC Rule 15Fi-3(b)(2). The SEC has proposed to define the term "[c]onfirmation" as a trade acknowledgment that has been subject to verification. See proposed SEC Rule 15Fi-1(a)(4).

<sup>4</sup> As the SEC noted in the Release for the Proposed SEC Rules:

In the course of clearing and settling SBS [security based swap] transactions, clearing agencies would need much or all of the information that is required on a trade acknowledgment, and therefore, the clearing agency would have in place systems to receive and process the information on a trade acknowledgment. The Commission notes that clearing agencies must: register with the Commission and submit their rules for review and approval by the Commission; meet minimum standards of care; have the capacity to enforce their rules and discipline their participants; and have chief compliance officers to oversee compliance with their statutory and regulatory obligations. The Commission believes that clearing agencies are thus equipped to manage the operations necessary to provide trade acknowledgments in the course of their work clearing and settling SBS transactions.

This approach is consistent with the goals set forth by the Commission in the Release. In fact, the Commission has stated that it “expects that swap dealers and major swap participants would be able to comply with each of the proposed rules by executing a swap on a swap execution facility (SEF) or on a designated contract market (DCM), or by clearing the swap through a derivatives clearing organization (DCO).”<sup>5</sup> Thus, with respect to cleared transactions, we believe that the CFTC should memorialize this expectation with respect to DCOs in the final regulations.

We further urge the Commission to coordinate with the SEC in order to ensure that trade acknowledgment and confirmation requirements for swaps and security-based swaps are comparable, and that required changes to existing trade matching and confirmation practices of regulated securities and derivatives be limited. In particular, with respect to swaps that are executed on a SEF or DCM and that are cleared from the moment of match, electronic confirmations issued by the SEF or DCM should be deemed to incorporate the rules of the SEF or DCM and the applicable DCO with respect to the requirement that an acknowledgment and confirmation contain all of the terms of the swap transaction.

CME generally supports the objectives of the Commission’s proposed rulemaking to provide for timely confirmation of swaps transactions. DCOs will play a central role in the newly transparent regulatory regime and we believe that the regulations should provide uniformity with those being promulgated by the SEC as well as implementing regulations which provide the lowest cost, most efficient and least burdensome alternatives available.

CME Group thanks the Commission for the opportunity to comment on this matter. We would be happy to discuss any of these issues with Commission staff. If you have any comments or questions, please feel free to contact me at (312) 930-8275 or via email at [Craig.Donohue@cmegroup.com](mailto:Craig.Donohue@cmegroup.com), or Christopher Bowen, Managing Director, Chief Regulatory Counsel, at (212) 299-2200 or via e-mail at [Christopher.Bowen@cmegroup.com](mailto:Christopher.Bowen@cmegroup.com).

Sincerely,



Craig S. Donohue

cc: Chairman Gary Gensler  
Commissioner Michael Dunn  
Commissioner Bart Chilton  
Commissioner Jill Sommers  
Commissioner Scott O'Malia

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<sup>5</sup> 75 Fed. Reg. 81520 (December 28, 2010).