CME Group
A CME/Chicago Board of Trade/NYMEX Company

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Legal

October 25, 2011

David A. Stawick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20851

Re: Acceptance of Public Submissions for a Study on International Swap Regulation Mandated by Section 719(c) of the Dodd-Frank Wall Street Reform and Consumer Protection Act; 76 Federal Register 44508 (17 C.F.R. Chapter I; 17 C.F.R. Chapter II) (July 26, 2011)

Dear Mr. Stawick:

CME Group respectfully submits the following response to the request for public comment on the Study on International Swap Regulation ("Study") mandated by 719(c) of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Our comments respond to the Commodity Futures Trading Commission ("CFTC") and the Securities and Exchange Commission ("SEC," and together with the CFTC, "Commissions") request for objective information on major central counterparties for the clearing of swaps. 76 FR 44511.

Major Central Counterparties for Clearing of Swap Contracts

CME Clearing, one of the largest central counterparty clearing services in the world, provides clearing and settlement services for exchange-traded contracts, as well as for over-the-counter derivatives transactions through CME ClearPort®.

Major Classes and Subclasses of Swap Contracts Cleared by CME Clearing

Credit Default Swaps

CME Clearing currently clears credit default swaps ("CDS") and interest rate swaps ("IRS"). CME Group clears the following subclasses of CDS, categorized in decreasing order of activity: (i) CDS NA Indexes (CDX IG AND CDX HY); (ii) CDS NA Single Name Index Constituents (IG Index Constituents); (iii) CDS NA Single Name Index Constituents (HY Index Constituents); (iv) CDS NA Single Name Non-Index Constituents (top 50 most liquid single names); and (v) CDS NA Single Name Non-Index Constituents (additional liquid single names with average monthly volume traded >100M).

Interest Rate Swaps

With respect to IRS, CME Group clears the following subclasses, categorized in decreasing order of activity: (i) USD 6m, 3m, and 1m LIBOR; (ii) Euro; (iii) Japanese Yen and Pound Sterling; (iv) Swiss Franc, Swedish Krona, Canadian Dollar, and Australian Dollar; (v) Norwegian Krone, Hong Kong Dollar, Danish Krone, and New Zealand Dollar; (vi) USD Fed Funds, USD Prime, USD SIFMA, and USD 12m LIBOR; (vii) amortizing swaps in all of the above categories; (viii) USD Constant Maturity Treasury, USD Constant Maturity Swap, and USD Constant Maturity Mortgage.

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CME Clearing's Year-to-Date Clearing Volumes for CDS and IRS

Asset Class	Year-to-Date Clearing Volume (as of 09/30/11)
Credit Default Swaps (CDS)	$7 billion
Interest Rate Swaps (IRS)	$38.7 billion

CME Clearing's Year-to-Date Outstanding Notional Values for CDS and IRS

Asset Class	Outstanding Notional Values (as of 09/30/11)
Credit Default Swaps (CDS)	$5.9 billion
Interest Rate Swaps (IRS)	$34.2 billion

Methods Used by CME Clearing to Clear Swap Contracts

CME Clearing's clearing model provides for connectivity to multiple execution venues and OTC technology, maintains open access, provides for clearing member and customer limit checks, and preserves anonymity. CME Clearing accepts matched transactions for clearing submitted through an open application programming interface ("API"), subject to certain criteria, including product eligibility, account registration, authentication, and verification that the transaction does not exceed any risk filters set by the clearing house for the relevant clearing members and/or risk filters set by each clearing member for its customer and proprietary accounts (collectively, the "Transaction Criteria"). CME connects to multiple execution venues, affirmation platforms, and other OTC infrastructure maintaining open access. CME Globex, for example, is our electronic trading platform for CME Group Exchanges. CME Globex Credit Controls enhances CME Clearing's ability to immediately accept for clearing those transactions executed on CME Globex.

Transactions executed on other venues and submitted to CME Clearing (e.g., OTC transactions submitted for clearing through CME Clearport) are subject to verification of the Transaction Criteria on a post-execution basis. For certain non-CME Globex traded futures and options transactions and certain swap transactions, CME Clearing provides clearing members with the option to host client and/or affiliate credit limits at CME Clearing regardless of trading venue. For certain non-CME Globex traded futures and options, CME Clearing requires clearing members to host client and affiliate credit checks at the clearing house. Any transaction submitted for a product where CME Clearing hosts such limits will be accepted or rejected for clearing in real time and a confirmation is sent for all accepted trades to the trade submission venue and respective clearing firms in real time.

For transactions where CME Clearing does not provide the credit limit hosting feature and for transactions where a clearing member declines the credit limit hosting feature, CME Clearing will submit a message to each clearing member requesting acceptance or rejection. Clearing members process such messages through their own limit systems and explicitly accept or reject each transaction via the API in a manner of minutes. CME Group believes that quick acceptance or rejection of clearing is important for effective risk management and for the efficient operation of trading venues" provided that the infrastructure is available for such.

Systems Used by CME Clearing to Establish Margin on Individual Swaps and on Swap Portfolios

CME Clearing relies on a tested approach to risk management, including daily marking-to-market of positions and requiring clearing members to settle obligations created by any losses in their proprietary and customer accounts. To accomplish this, CME Clearing imposes margin requirements on its clearing member firms which, in turn, impose margin requirements on their customers. The margining approach used by CME Clearing is, in general, a risk-based portfolio approach that evaluates position losses that could occur under extreme movements in the markets. CME Clearing's margin methodologies for both

exchange-traded and "cleared only" derivatives recalibrate initial margin and mark-to-market variation margin on a daily basis.

Exchange-Traded Derivatives

CME Clearing determines initial margin requirements utilizing our proprietary Standard Portfolio Analysis of Risk ("SPAN") system. SPAN, a global industry standard made available by license agreement, is a VaR-based portfolio margin methodology that calculates performance bond or margin requirements by analyzing the potential worst-case scenarios that a portfolio of instruments may incur over a given time period. Using SPAN, CME Clearing establishes the appropriate level of margin to cover the risk of a clearing member's proprietary and customer positions. CME Clearing's margin methodology is also highly monitored for regular parameter adjustments and is subject to daily back-testing to determine whether the loss estimates are supported by observed outcomes.

CME Clearing also conducts routine stress tests on its margin methodologies for all products. CME Clearing tests the impact of new scenarios on instrument and portfolio values on a daily basis. Numerous stress testing scenarios have been modeled to reflect a diverse set of possible market events. Stress results are evaluated against performance bonds on deposit and clearing member-adjusted net capital. Based upon stress testing results, CME Clearing may request additional information from clearing members regarding their liquidity resources and their accounts, such as whether any offsetting positions exist in other markets. In some cases, stress tests may cause CME Clearing to increase a clearing member's performance bond requirements or request that the clearing member reduce or transfer positions.

Credit Default Swaps

With respect to CDS, CME Clearing utilizes the multi-factor PC Credit Model to establish margin. CME Clearing's margin model determines margin requirements for CDS portfolios rather than for individual CDS positions. This approach appropriately recognizes the offsetting nature of long and short exposures in the same trading account.

In this model, portfolio margin is assessed based on a factor model designed to capture the possibility of large CDS price movements, as well as potential illiquidity and other characteristics of a CDS portfolio that may be relevant in the event that CME Clearing must liquidate or hedge such a portfolio following a clearing member default. The model calculates a CDS portfolio's exposure to macroeconomic risk factors such as systematic risk, curve risk, and spread convergence/divergence risk that capture overall CDS price movements and also to risk factors such as sector risk and liquidity risk that describe idiosyncratic price movements or compensate for specific features of CDS portfolios. The total margin required on a CDS portfolio under the CME Group model is the sum of scenario-based portfolio losses arising from the component risk factors. Because the model sums margin requirements across risk factors, it offers the protection that would result if those risk factors were perfectly correlated (e.g., if the extreme outcomes on all factors were to occur simultaneously). The margin model thus will err on the side of conservatism, particularly during normal market conditions.

The use of multifactor models to describe likely price movements is well-accepted and well-documented in the asset pricing literature and in practice. In the context of margin determination, the multifactor model approach also has the critical virtues of replicability and transparency. Both of these attributes are particularly important given the two-tiered margining system in which CME Clearing assesses margin requirements on clearing members and members in turn assess margin on their customers.

Interest Rate Swaps

With respect to IRS, CME Clearing utilizes the historical Value-at-Risk ("H-VaR") model to establish margin. Net portfolio margining of cleared IRS positions isolates the true curve risk in a portfolio and

assesses the appropriate margins to cover that risk. This model is based on a 99% confidence interval of a five-day move using five years of historical data and utilizes appropriate yield curve scenarios to capture potential losses based on filtered historical simulations. All positions in each currency are valued under a series of cross-portfolio yield curve scenarios to estimate the highest forecast loss. This estimate serves as the basis for the initial margin requirement. These scenarios are continually monitored and reviewed periodically according to market conditions. Variation margin is calculated daily based on zero-coupon yield curves. The benefits of CME Clearing's IRS margin methodology include transparency to market participants, ease of replicability, and ease of scalability in terms of margining other IRS currencies and futures.

Major Clearing Members of CME Clearing

Clearing Member	Asset Class
Barclays Capital Inc.	CDS, IRS
BNP Paribas Securities Corp.	CDS, IRS
BNY Mellon Clearing, LLC	IRS
Citigroup Global Markets Inc.	CDS, IRS
Credit Suisse Securities (USA) LLC	CDS, IRS
Deutsche Bank Securities Inc.	CDS, IRS
Goldman, Sachs & Co.	CDS, IRS
J.P. Morgan Securities LLC	CDS, IRS
Merrill Lynch, Pierce, Fenner & Smith Inc.	CDS, IRS
Morgan Stanley & Co. LLC	CDS, IRS
Nomura Securities International, Inc.	CDS, IRS
RBS Securities Inc.	IRS
UBS Securities LLC	CDS, IRS
Wells Fargo Securities, LLC	IRS

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CME Group thanks you for the opportunity to comment on this matter. We would be happy to discuss any of these topics with you or your staff. If you have any comments or questions, please feel free to contact me at (312) 930-3488 or via email at Kathleen.Cronin@cmegroup.com or Christal Lint, Director, Associate General Counsel, at (312) 930-4527 or Christal.Lint@cmegroup.com.

Sincerely,

Kathleen M. Cronin

cc: Chairman Gary Gensler
Commissioner Mike Dunn
Commissioner Jill Sommers
Commissioner Bart Chilton
Commissioner Scott O'Malia
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Natalie Markham Radhakrishnan
Chairman Mary Schapiro
Elizabeth M. Murphy