CME Group

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Legal Department

November 21, 2013

VIA ON-LINE SUBMISSION
Melissa Jurgens
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: "Made Available For Trading" Submission by trueEx LLC, IF-13-005

Dear Ms. Jurgens:

CME Group Inc. ("CME Group")[1], on behalf of its five designated contract markets, appreciates the opportunity to comment on the "made available for trading" (or "MAT") filings submitted pursuant to Rule 40.5 related to interest rate swap ("IRS") products by trueEx LLC (trueEx), a registered swap execution facility ("SEF") and designated contract market ("DCM"). The Commodity Futures Trading Commission's ("CFTC" or "Commission") determination respecting the scope of the MAT determination is significant because, under the Commodity Exchange Act ("CEA"), the products subject to a MAT determination are required to be traded on or subject to the rules of a SEF or DCM and, under Part 39 of the Commission's regulations, will be treated as a "Required Transaction" unless otherwise exempt. Therefore, a MAT determination for any particular IRS product will force market participants to change the way they currently execute many of their swap transactions. We provide the following comments in response to trueEx's MAT filing.

In the final rulemaking governing the MAT determination at issue here, the Commission determined that the following factors would be considered as part of any MAT determination: (1) whether there are ready and willing buyers and sellers; (2) the frequency or size of transactions; (3) the trading volume; (4) the number and types of market participants; (5) the bid/ask spread; and/or (6) the usual number of resting firm or indicative bids and offers. No single factor must always be considered as to whether a swap is available to trade; therefore, the SEF or DCM may consider any one or more of the factors in its initial determination. In particular, in the final MAT rulemaking, the Commission made clear that the MAT determination process should focus primarily on whether an *individual* swap "has sufficient trading liquidity to be subject to mandatory trade execution," distinguishing this process from the mandatory clearing determination process, which focuses on the liquidity from a portfolio basis.

The Commission's final MAT rulemaking provided no guidance regarding how a SEF or DCM should consider a strategy, package, spread or other transaction involving a swap. In other words, the final

[1] CME Group is the world's largest and most diverse derivatives marketplace. CME Group includes five separate Exchanges, including Chicago Mercantile Exchange Inc. ("CME"), the Board of Trade of the City of Chicago, Inc. ("CBOT"), the Board of Trade of Kansas City, Missouri, Inc. ("KCBT"), 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, 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®.

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rulemaking focused exclusively on swaps that are executed as outrights or on a single stand-alone basis. Such packaged transactions play an important role in ensuring efficient pricing of interest rate products across different but related instruments, while also providing an effective means for allowing risk transfer and hedging across products. One important spread market involving swaps, where the swap leg may be deemed MAT, is the invoice swap market.[2] In an invoice swap, market participants privately negotiate and simultaneously execute a CBOT-listed Treasury Futures contract and a forward starting interest rate swap whose start and end dates typically match the anticipated delivery date of the cheapest to deliver security of the Treasury Futures leg and the maturity date of such security respectively. The futures leg of these spread trades is executed as exchange for risk (EFR) pursuant to our Exchange Rule 538, which requires that these transactions be privately negotiated in accordance with Commission Regulation 1.38 and that the swap be an over-the-counter swap, i.e., not executed on or subject to the rules of a DCM or SEF. The benefits of allowing market participants to execute invoice swaps in this manner include improved pricing, decreased transaction costs and more efficient risk transfer.

Specifically, an invoice spread executed in the manner described above has significantly lower market risk than an outright transaction and therefore can have a much tighter bid-ask spread relative to executing each instrument in the spread on a stand-alone basis. As such, requiring market participants to separately execute each stand-alone instrument would force them to pay more than one bid-ask spread significantly increasing the cost of trading the exposure. Additionally, invoice swaps facilitate more efficient risk transfer and hedging by allowing market participants to exchange the net risk of the package with a single counterparty. Finally, executing both legs of the spread simultaneously eliminates "legging" risk, which is the possibility that the market moves between the times that the first and the second leg of the spread can be individually executed.

While CME Group believes that the benefits of the invoice spread market are apparent, we also believe it will be important to compare the characteristics of this spread market with the broader interest rate swap market in order to assess the suitability of a potential MAT requirement for the swap leg of such spreads. Specifically, available data suggests that the liquidity and complexity of this spread market differs from that of swaps traded on an outright or stand-alone basis. For example, CME Group is able to measure the daily notional size of the invoice spread market by looking at Treasury Futures EFR volumes submitted to the exchange on a daily basis. These volumes represent the notional value of the Treasury Futures leg of the risk neutral invoice spread transaction and therefore serve as an appropriate proxy for measuring the notional size of the invoice spread market as a whole. In 2013, CME Group has seen an average daily Treasury Futures EFR volume of ~48,000 contracts. Based on the notional value of each contract, this implies a daily invoice spread notional volume of less than $6BN per day across the Treasury Futures curve. This ADV is broken out by instrument such that average daily activity by tenor is as follows:

	CME Group 2013 EFR ADV	Implied Daily Invoice Spread Notional
2Y Note Future	11,266	$2.25 billion
5Y Note Future	23,907	$2.39 billion
10Y Note Future	11,124	$1.11 billion
30Y Bond Future	1,539	$0.15 billion
Ultra Bond Future	725	$0.07 billion
All Tenors	48,560	$5.98 billion

By comparison, aggregate daily USD IRS cleared notional volume across CME and LCH has averaged approximately $580BN/day over the past 2 months. This suggests that the total invoice spread market represents just 1% of the USD cleared swap market by notional volume and, more importantly, that no single tenor of invoice spread represents more than 0.4% of total daily cleared USD interest rate swap

[2] We specifically limit our comments to invoice spreads.

activity. As such, it would be inappropriate to assume that the liquidity dynamics of the broader swap market can be applied in the context of assessing the much smaller invoice spread market.

In addition to representing a small percentage of total USD cleared interest rate swap activity the convention for pricing and trading invoice spreads differs from that of an outright interest rate swap. Specifically, because the invoice spread is traded as a risk neutral package, counterparties not only agree on the price of each leg to the trade but also agree on the comparative dollar value risk of each leg in order to establish the appropriate notional size for each. Further, because both legs of the transaction are typically priced relative to the anticipated delivery date and subsequent maturity date of the cheapest to deliver security for the Treasury futures leg, this means that the swap component to the spread involves pricing of what trueEx refers to in its filing as a "partial tenor", forward starting interest rate swap. Based on details of the filing (which references transaction details for Libor based swaps submitted to DTCC SDR during the month of September 2013), this implies that the swap leg of such spreads fall into a category of forward starting, partial tenor swaps which represent less than 0.5% of Libor swap transactions recorded by DTCC's SDR that month.

In aggregate, while specific data is not publicly available to definitively compare liquidity of the invoice spread market with that of outright, whole tenor spot starting swaps, CME Group believes it is reasonable to conclude, by looking at the relative size and structural complexities of this invoice spread market, that the liquidity profile is likely to differ materially as it relates to determining the potential adverse market impact of a MAT requirement for the swap leg of such spread transactions.

Based on the data available to us at this time respecting the invoice spread market, we do not believe that a MAT determination for the swap leg should apply in the context of executing such swap as a part of a packaged invoice spread trade. Additionally, a MAT determination applied to the invoice spread would be disruptive to, and potentially eliminate the invoice swap market since execution of the trade as a single package would no longer comply with our rules or Commission regulations. For these reasons, we agree with trueEx's decision to exclude invoice spreads from its MAT determination.

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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 (212) 299-2200 or via email at Christopher.Bowen@cmegroup.com, or Christal Lint, Executive Director, Counsel Government Relations, at (312) 930-4527 or Christal.Lint@cmegroup.com.

Sincerely,

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Managing Director and Chief Regulatory Counsel