Timothy Maher
Chief Compliance Officer
CME Clearing

September 19, 2016

VIA ONLINE SUBMISSION

Mr. Christopher J. Kirkpatrick
Secretary of the Commission
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

RE: Request for Comment on Revisions to Existing Paperwork Reduction Act Collections in Connection with the Amendments to Swap Data Recordkeeping and Reporting Requirements for Cleared Swaps ("Cleared Swap Reporting Release")
81 FR 47362 (July 21, 2016)

Dear Mr. Kirkpatrick:

CME Group Inc. ("CME Group") appreciates this opportunity to provide comments on the Commodity Futures Trading Commission's ("Commission" or "CFTC") proposed revisions to existing Paperwork Reduction Act ("PRA") collections ("Comment Request") implicated by the recently adopted final rule amendments to swap data recordkeeping and reporting requirements for cleared swaps ("Cleared Swap Reporting Release")[1].

By way of background, CME Group is one of the world's largest and most diverse derivatives marketplaces. It operates multiple designated contract markets ("DCMs") which offer a wide range of products available across all major asset classes, including: futures and options based on interest rates, equity indexes, foreign exchange, energy, metals, and agricultural commodities. CME Group also operates a derivatives clearing organization ("DCO"), which provides clearing and settlement services for exchange-traded and over-the-counter derivatives transactions and is one of the largest central counterparty clearing services in the world. Additionally, CME Group operates multiple repositories[2] globally, including a swap data repository ("SDR") in the United States, and a swap execution facility ("SEF").

I. EXECUTIVE SUMMARY

On June 27, 2016, the Commission adopted the Cleared Swap Reporting Release,[3] which amended certain provisions of existing Part 45 as they relate to the reporting of cleared swap transactions. As such, the Cleared Swap Reporting Release will require entities reporting swaps to report certain additional data elements as well as require registered DCOs to terminate "original swaps" (as defined in the final rule), which the Commission notes may require DCOs to connect to multiple registered SDRs. In the Cleared Swap Reporting Release, the Commission noted that the changes being adopted would require some revisions to the existing information collection covering obligations on reporting entities and SDRs found in Part 45.[4] The

[1] *See* Amendments to Swap Data Recordkeeping and Reporting Requirements for Cleared Swaps, Final Rule, 81 FR 41736 (June 27, 2016).
[2] Chicago Mercantile Exchange Inc. ("CME Inc.") is provisionally registered as a U.S. Swap Data Repository with the Commission. It (or its affiliate) also operates trade repositories authorized to do business in Manitoba, Ontario, Quebec, Alberta, British Columbia, Saskatchewan, Nova Scotia, New Brunswick, Nunavut, Northwest Territories, Prince Edward Island, Yukon, the EU, and Australia.
[3] *See* Amendments to Swap Data Recordkeeping and Reporting Requirements for Cleared Swaps, Final Rule, 81 FR 41736 (June 27, 2016).
[4] *See* Cleared Swap Reporting Release, 81 FR at 41758.

Commission proposes to amend existing collection 3038–0096[5] to account for adjustments to reporting entities' swaps data reporting systems necessitated by the Cleared Swap Reporting Release, which includes an estimate of burden hours and costs associated with various requirements of Part 45 swaps reporting and recordkeeping.

In our response to this Comment Request, we will be addressing the accuracy of the Commission's estimate of the burden of the proposed collection of information, including the validity of the methodology and assumptions used. It is our belief that the estimate of the burden for the DCO is based on false assumptions which underestimate the impact of these changes and therefore the time needed for the DCO to come into compliance. Specifically we believe the Commission underestimated the number of connections a DCO would have to establish in order to meet its obligation pursuant to Part 45.4(c) to terminate "original swaps." Moreover, we believe the Commission overestimated the economies of scale that could be gained when connecting to additional SDRs.

II. RESPONSES TO SPECIFIC QUESTIONS FOR COMMENT

Please note that CME Group does not have additional information or comments to provide for questions 1, 4, 6 or 7.

> *2. Given that not every DCO clears swaps in every asset class, and that not every SDR accepts data for every asset class, to how many SDRs must DCOs typically connect to properly report original swap terminations?*

Response: There are currently four provisionally registered U.S. SDRs: BSDR LLC, CME Inc., DTCC Data Repository LLC ("DDR"), and ICE Trade Vault, LLC ("ICE"). The Commission postulates in the PRA that "the number of connections likely would be less than four as not every DCO clears swaps for every asset class, and not every SDR accepts data for every asset class."[6] This statement is inaccurate as all four SDRs are approved to accept data for credit, foreign exchange, interest rate, and other commodity asset classes. Equity is the only asset class for which not all SDRs are authorized to accept data. Therefore, only a DCO who limits the swaps it clears to the equity asset class would be able to limit the number of SDRs to which they would need to connect in order to properly report original swap terminations. However, we are unaware of any DCO that limits the swaps it clears to only the equity asset class.

Additionally, the Commission assumes that the number of connections a DCO would need to establish "could be limited to the extent that the DCO clears swaps for clearing members that choose to report original swaps to a limited number of SDRs."[7] The Commission's assertion is inaccurate because it is not the clearing member that selects the SDR, but rather, the reporting counterparty or the SEF/DCM, in the case of swaps executed on-facility as set forth in Part 45.3(j). Furthermore, a DCO would not be likely to limit its growth potential by simply planning around its existing customer base; a DCO would be inclined to plan for additional customers and growth. Because a DCO would want to put itself in a position to accept additional business, rather than turn it away due to not being able to terminate the original swap, DCOs would be inclined to connect to all of the SDRs. Establishing connections with each SDR requires extensive development and testing, as well as the cooperation and participation of each SDR. Therefore, this connection is something that must be carefully planned and budgeted for in terms of time and resource allocation. The timing of the finalization of the Cleared Swap Reporting Release, and the compliance date set forth therein, do not permit the necessary planning and budgeting required for an undertaking of this magnitude, as discussed in more detail in our response to question 3 below.

---

[5] *See* Notice of Intent to Renew Collection 3038–0096, 80 FR 47477.
[6] *See* 81 FR at 47364.
[7] *Id.*

3. Can DCOs take advantage of economies of scale in terms of personnel and/or equipment when connecting to more than one SDR?

Response: We believe the Commission's assumption that economies of scale exist when DCOs connect to more than one SDR is incorrect. Appendix 1 to Part 45, Tables of Minimum Primary Economic Terms Data, merely lists the data categories and fields, and does not prescribe the format and allowable values.[8] This has resulted in implementation by SDRs that has been markedly different. Further, each SDR has its own set of submission methods and variations in implementation of the industry standard protocols. As such, the ability of DCOs to reuse some or all of the work done to connect to the SDR to which they submit their swap creation data and swap continuation data, and any potential cost advantages, are limited.

The Commission also notes that "while connections to different SDRs could present different technological challenges, the DCO would be able to use the same programmers, analysts, and other personnel when implementing connections to all required SDRs."[9] While we agree with the Commission's assertion that the DCO could use the same programmers, analysts, and other personnel when implementing connections to all required SDRs, the markedly different implementations by each SDR means that familiarity with the regulatory requirements is likely the only efficiency which can be gained. Furthermore, while conceptually the same programmers, analysts, and other personnel can be used to connect to all required SDRs, the short implementation timeframe[10] means that existing personnel may not be sufficient to establish such connections in the prescribed timeframe. Most entities determine their budgets and allocate their human and financial resources prior to the commencement of the calendar year. Yearly budgets are determined based on which projects are known at the time the budget is finalized. While most entities allocate additional resources for minor changes and projects that might occur during the following year, most do not set aside human or financial resources for a project of this magnitude. By the Commission's own estimates, there would be a "one-time hours burden of 3,000 hours per DCO to comply with the Cleared Swap Reporting Release, beyond the existing burden in collection 3038–0096."[11] Using a rate of $75 per hour[12] for information technology services, if the Commission's hours' burden assumptions were correct, which we believe they are not, this initiative would incur a cost of at least $240,000. Because the content, scope, and timing of the Cleared Swap Reporting Release were not known during the budgeting process, this initiative was not accounted for in the budget for 2016. Thus, the human and financial resources necessary to implement the amended rules are not available. As a result of the amended rules, entities have had to reallocate existing human and financial resources from other critical and budgeted projects, which include enhancements to risk management capabilities.

5. In the Cleared Swap Reporting Release, the Commission encouraged DCOs and SDRs to standardize original swap termination messages. Are DCOs and SDRs working towards such a standardized message? What cost savings could be associated with such standardized messages?

Response: The human and financial resources, time, and effort for a DCO to write to the technical specifications of each SDR is significant. To minimize the impact on the DCOs and mitigate the possibility that an original swap's SDR would become a factor in determining whether a swap was eligible for clearing[13], the SDRs started working in earnest in the beginning of July to create an industry-wide

---

[8] Appendix 1, 17 CFR Part 45 ("Tables of Minimum Primary Economic Terms Data").
[9] *See* 81 FR at 47364.
[10] *See* LCH Comment for proposed rule 80 FR 52544. ("Given the level of coordination required between trade sources, DCOs and SDRs, we would recommend a period of at least 12 months from the time the rules are finalised to agree a design and build a solution. LCH anticipates that following the implementation of such changes, the industry would require a period of industry testing, which could reasonably take up to 3 months.")
[11] *See* 81 FR at 47364.
[12] This is the global blended hourly rate CME Group utilizes in accounting for the information technology personnel on our financial records.
[13] *See* Cleared Swap Reporting Release, 81 FR at 41750.

standard for original swap termination messages. Over the past several months, the SDRs frequently engaged in dialogue, having established a recurring twice a week call for purposes of finalizing the original swap termination message. Although the SDRs made major strides, it was determined that the differences in each SDR's implementation were significant enough that a common termination message would not be possible without a major re-architecture by one or more of the SDRs. Work on a common termination message ceased at the end of August.

> *8. The Commission received comments on the hours burden associated with establishing a DCO connection to an SDR, but not a cost estimate. Do the proposed revisions to the PRA, which include an hours burden for establishing a connection, and a cost burden for maintaining a connection, accurately reflect the PRA burden on DCOs?*

Response: The Commission estimates a "one-time hours burden of 3,000 hours per DCO to comply with the Cleared Swap Reporting Release, beyond the existing burden in collection 3038–0096."[14] Although 3,000 hours is a large project by any standard, we believe that the Commission grossly underestimated the one-time hours burden of 3,000 hours per DCO. As discussed in questions 2 and 3 above, not only is the Commission's assumption regarding the number of connections that the DCO will have to establish flawed, but also, its analysis regarding the ability of the DCO to reap the benefits of economies of scale when connecting to more than one SDR is incorrect. Specifically, the Commission's estimate assumes that the number of connections a DCO would need to make is less than four because not every SDR accepts data for every asset class. However, this is not factually accurate as equity is the only asset class for which not all SDRs are authorized to accept. Furthermore, because each SDR's specifications are drastically different, and there is no industry-wide standard, the ability of DCOs to reuse some or all of the work done to connect to the SDR to which they submit their swap creation data and swap continuation data is limited. The Commission's underlying assumption that a portion of the work could be reused is erroneous. Therefore, the economies of scale embedded into the 3,000 hours estimate is illusory; there is no economy of scale. The Commission's assumption would only be accurate if an industry-wide standard existed. Because the Commission has erroneously based its 3,000 hour calculation on inaccurate assumptions, we believe that the total hours for the DCO to comply with the Cleared Swap Reporting Release will be greater than the estimated 3,000 hours.

Further, the Commission estimates that DCOs would incur "annual costs of $250,000 to maintain connections to multiple SDRs, to allow the DCO to terminate all original swaps accepted for clearing."[15] In its cost estimate, the Commission is taking into consideration economies of scale, which, for all intents and purposes, do not exist for the reasons set forth in our response to question 3. Embedded within the annual cost estimate is also an underlying assumption that every DCO would not have to connect to every SDR because not every DCO clears swaps in every asset class and not every SDR accepts the data. As previously discussed, this assumption is faulty. Because the Commission has based its estimate of the annual cost to maintain connections to multiple SDRs on inaccurate assumptions, we believe the annual cost will be greater than the estimated $250,000 per DCO.

Additionally, the Commission fails to consider that most entities determine their budgets and allocate their human and financial resources prior to the commencement of the calendar year. It is at this time that entities allocate the resources to meet requirements during the following calendar year. While most entities allocate additional resources for minor changes and projects that might occur during the following year, most do not set aside human or financial resources for a project of this magnitude. Because the content, scope, and timing of the Cleared Swap Reporting Release were not known during the budgeting process, this initiative was not accounted for in the budget for 2016. More importantly, because the Commission has grossly underestimated the hours required to comply with the Cleared Swap Reporting Release, the Commission's cost estimate for the project is not accurate. In our analysis, we have

[14] *See* 81 FR at 47364.
[15] *Id.*

20 South Wacker Drive Chicago, Illinois 60606 T 312 930 2730 timothy.maher@cmegroup.com cmegroup.com

concluded that the total spend for just the technology build for a project of this magnitude is almost 50% above the Commission's estimate of the burden.

Due to the aforementioned reasons, we believe that the time and human and financial resources to comply with the Cleared Swap Reporting Release is drastically larger than the Commission estimated. As we have demonstrated, the assumptions on which the Commission has estimated the time, cost, and effort required by the DCO to comply with the Cleared Swap Reporting Release are erroneous.

Please note that in light of the reasons stated above, as well as the overall industry impact, we intend to subsequently seek no-action relief pursuant to Commission Regulation 140.99 in order to gain an assurance that the Commission will not recommend enforcement action for a failure to comply with the Cleared Swap Reporting Release until 90-days after the current compliance date of December 27, 2016. No-action relief would allow us to redistribute the work and lessen the impact on existing personnel, on-board new resources if necessary, and properly account for the financial impact of the project in the 2017 budget.

***

We thank the Commission for initiating this important process and giving us the opportunity to comment. We are happy to discuss any questions the Commission or its staff might have with respect to the comments contained in this letter. Please do not hesitate to contact me at 312-930-2730 or via email at Timothy.Maher@cmegroup.com.

Sincerely,

Timothy J. Maher
CCO CME Clearing