

Via E-Mail (CPSS@bis.org and qdisclosure@iosco.org)

December 13, 2013

The Committee on Payment and Settlement Systems ("CPSS")

The International Organization of Securities Commissions ("IOSCO")

RE: CPSS-IOSCO Consultative Report: *Public quantitative disclosure standards for central counterparties*

Dear Committee Members:

CME Group Inc. ("CME Group"), on behalf of Chicago Mercantile Exchange Inc.'s Clearing Division ("CME Clearing") and CME Clearing Europe Limited ("CME Clearing Europe"), would like to express its appreciation to the Committee Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions ("CPSS-IOSCO") for the opportunity to comment on its consultative report on public quantitative disclosure standards for central counterparties ("the Report") under the principles for financial market infrastructures ("PFMI"). CME appreciates the Committees' efforts to increase transparency and market stability through standardized quantitative disclosures across central counterparties and agrees that developing a baseline disclosure matrix will assist clearing and market participants to better evaluate across FMIs and their offerings. We also note that US based FMIs are subject to multiple quantitative reporting obligations already under local law and regulation including CFTC Regulations 39.13, 39.21 and 39.19, among others, and that FMIs with public affiliates are subject to additional reporting obligations in the US including quarterly 10-Q and annual 10-K reports.

CME Group has separated its response into three sections to ensure it has the flexibility to address all comments/concerns stemming from the Report while also providing CPSS-IOSCO with clearly delineated responses to the relevant questions posed in the Report. The first section contains the general principles CME Clearing believe CPSS-IOSCO should consider when finalizing its quantitative disclosure standards, the second section addresses the general questions covered in the Report's cover note and the final section responds to the detailed questions contained in the PFMI table. Please note that where CME Clearing does not address one of the questions posed by CPSS-IOSCO it has determined that it does not oppose such disclosure.

General Principles

1. **The quantitative disclosure requirements should not include any information that could result in the disclosure of confidential and proprietary information of the FMI, its clearing members or clients.**

Due to the significant amount of information already available in some jurisdictions including, but not limited to, reports on clients with particularly sizable activity (i.e. large trader reports), FMI open interest and daily volume reports, CPSS-IOSCO should be cognizant of the ability of sophisticated parties to potentially reverse engineer confidential and sensitive information. CPSS-IOSCO should be especially careful about information having a market impact (positions, collateral types, etc. for individual market participants), providing proprietary FMI operational and risk management techniques and information, such as the results of stress testing, that could be misinterpreted in a way that could inadvertently damage market confidence.

2. **The quantitative disclosure requirements should account for the unique aspects of different FMI business and should not conflict with FMIs obligations under local law or regulation.**

For example, FMIs should not be required to disclose information they, or an affiliated entity, are not authorized to provide under local law and should not be required to report information in advance of any of the timeframes or restrictions contained in local law or regulation (such as timing of annual 10-K reports required for public entities in the US or information on a defaulted/bankrupt clearing member). In addition, it should be recognized that each FMI is unique in respect to their businesses, services provided and risk management models. Where the disclosure requirement is not relevant to the FMI's business, the disclosure requirement should give FMIs the discretion and flexibility to provide analogous information relevant to its business and which would provide adequate insights to the risk of the FMI.

3. **The quantitative disclosures should be reported on a consistent time frame to avoid unnecessary duplication of work and to allow for standardized processes to be built to comply with reporting requirements.**

Requiring multiple reporting periods for FMIs potentially including monthly, quarterly, semi-annually and annually introduces unnecessary work and complexity into the reporting process. All information required to be reported under the quantitative disclosure standards should be reported on a semi-annual basis. Providing information on a consistent and standardized schedule will provide the necessary information to the marketplace without overly burdening FMIs with unnecessary reporting obligations that may take away from their primary remit of providing effective risk management.

4. **FMI should be provided sufficient time to report quantitative data to the public considering the volume and complexity of data that will be provided.**

CPSS-IOSCO suggests providing a diverse and complex set of quantitative data which will require significant time and effort to compile and check. As such, FMIs should be provided ample time to report quantitative data after the reporting period has closed.

5. **A sufficient implementation period should be provided to allow FMIs to build the systems necessary to provide regular quantitative data reports.**
6. Considering the fact that the standards are unlikely to be finalized prior to 2nd Quarter 2014, we do not believe that implementing any of the requested quantitative reporting is feasible before January 1, 2015, at the earliest, with a phased implementation process that allows for some of the more detailed reporting to begin at least one year from the date the standards are approved for FMIs. **To the extent that the reporting requirements of the Payments Risk Committee (“PRC”), CPSS-IOSCO and local regulators are duplicative a consensus should be reached on a standardized reporting format to avoid unnecessarily duplicative work by FMIs.**

As stated on its website, the PRC is a private sector group of senior managers of US banks, sponsored by the Federal Reserve Bank of New York, whose primary goal is to foster enhancements to the safety and resiliency of financial market infrastructure. For more information on the PRC please refer to <http://www.newyorkfed.org/prc/>. Due to the numerous organizations and local regulators with interest in FMI transparency, we believe it prudent for all parties to work together agree on a level of reporting detail and standardized reporting information in advance of the implementation date of any quantitative disclosure requirements.

Responses to General Questions

1. *Are there additional quantitative data that are not included but are, in the respondent's view, necessary to allow risks associated with FMIs and the systemic importance of FMIs to be understood, assessed and compared? If so, what additional data should be disclosed, and why?*

CME Clearing is not of the opinion that any additional quantitative data needs to be disclosed.

2. *Are there alternative quantitative or qualitative data, or more effective ways of presenting these or alternative data, that would better meet the objectives of fully, clearly and accurately understanding FMI risks and systemic importance, and comparing FMI risk controls, financial condition and resources to withstand potential losses, given the different markets and products cleared by FMIs, and differences in their structure? Are there data items included that are not, in the respondents' view, necessary to achieve these goals and, if so, why are these not necessary?*

CME Clearing will address efficacy of each disclosure proposal, and whether it is necessary to achieve the Report's goals in turn but does not believe that any alternative data is required to meet these goals.

3. *Would any of this data be materially commercially prejudicial to FMI participants, linked FMIs or other relevant stakeholders and why is this the case?*

Yes, much of the data proposed to be disclosed would be materially commercially prejudicial due to the likelihood that it would provide insights into individual participant positions and CME Clearing will address its concerns in the specific sections set out below.

4. *Would disclosure of any of this data result in material additional burden to the FMI, and why (for example, because the data are not routinely available to the FMI in the normal course of its business and risk management)? If so, what analogous information could be disclosed in a meaningful way that would achieve similar goals while minimising this burden?*

Yes, the proposal would result in a material additional burden on FMIs to provide data in tailor-made formats and systems automation would be required given the frequency and scope of information required.

5. *Would disclosure of any of this data be inconsistent with local law or any legal or regulatory limitations on public disclosure? If so, what analogous information could be disclosed in a meaningful way that would achieve similar goals while avoiding such inconsistency?*

It is highly likely that providing some of the required quantitative data would be inconsistent with CFTC regulations, including but not necessarily limited to CFTC Regulation 1.31(a)(1), covering the obligations of derivatives clearing organizations ("DCO") to limit disclosure and inspection of DCO records.

6. *Do the suggested frequencies for disclosing data strike an appropriate balance between up to date information and reporting burden? What is an appropriate reporting lag?*

As mentioned in General Principle 3 above, we believe that it is appropriate to have consistent reporting frequency across all data points to obviate the burden of the significant reporting obligations proposed in the Report. We believe that reporting no more frequently than semi-annually strikes the correct balance between the burdens of FMI reporting and the benefits of disclosure to the public. In addition, we believe that the appropriate reporting lag is by the end of the quarter following the semi-annual reporting period. By way of example, this would require a FMI to submit its first half report by September 30th.

7. *(For FMI respondents) which of these data elements do you already publicly disclose? To what extent is that data maintained consistent with the quality controls called for in the template?*

CME Group and its affiliates publish a variety of different information subject to different regulations and protocols. Depending on the information type, it is provided to CME Clearing's primary regulator, clearing membership or to the general public via CME Group's website and separately to the PRC through a limited access, CME Group internal website. Assuming public includes any information generally available through the CME Group or CFTC website, CME Clearing is obligated to provide a wide variety of information pursuant to DCO Core Principle L: Public Information and Part 39 of the CFTC regulations. In addition, CME Clearing will be publishing the Key Metrics of the CPSS-IOSCO PFMI which by the end of 2013. Due to the significant disclosure obligations under US law and CFTC regulation, we do not believe it beneficial to cross reference each of them individually.

8. *What is the appropriate structure for presenting the quantitative disclosures so that comparability is facilitated? Once reporting has begun, should previous reports remain available to allow trends over time to be examined?*

A standardized format should be used for reporting to all information and previous reports should remain available.

Principle 4 – Credit Risk

Q.4.3.1. How would this information best be presented to provide meaningful information across FMIs while avoiding disproportionate reporting burden (eg what is the case for disclosing further information on stress testing methods)?

Q.4.3.2. What are the pros and cons of seeking disclosures with regard to the estimated largest credit exposures to both the single largest and two largest participants (plus affiliates), from all FMIs irrespective of whether they are subject to a cover 1 or a cover 2 regulatory requirement?

Default Fund Size Reporting

CME Clearing agrees that reporting aggregate data for default resources would provide useful information for industry participants by confirming the financial stability of the FMI. However, CME Clearing has significant concerns that providing specific information about individual credit exposures (whether the single largest or two largest) would allow market participants to reverse engineer confidential and proprietary information about FMI participants. This jeopardizes our confidentiality obligations to our clearing members and, as such, we must request that the Committees refrain from requiring public disclosure of quantitative information of any single or limited number of clearing members.

However, CME Clearing does support the reporting of its calculated Guaranty Fund, which covers the losses associated with the default of the two largest Clearing Members, “cover two”. However, we do not believe that “cover 2” FMIs should need to report “cover 1” sizes and vice versa. FMIs should report data on the standards to which they are subject under their home regulatory regimes.

Default Fund Breaches

We believe that publishing the number of “default fund size breaches” is counterproductive and could result in misinterpretation as previously mentioned in General Principle 1. Potentially, the public could start comparing the number of breaches among FMIs in a vacuum. However, breach information is potentially irrelevant and does not qualitatively represent the resilience of FMIs’ risk management and default coverage. This resilience is determined by complex factors contained in an FMI’s respective risk management methodology which is intellectual property and wisely not required to be published.

Principle 5 - Collateral

Q.5.1. How frequently are haircuts changed for initial margin collateral?

Q.5.2. How frequently are haircuts changed for default fund collateral?

Q.5.3. How could this information best be presented to provide meaningful information across FMIs while avoiding disproportionate reporting burden?

CME Clearing changes its haircuts on collateral accepted as initial margin and default fund contributions as market conditions dictate. CME Clearing plans to publish information on its collateral haircut policy in

its PFMI Qualitative Disclosure document by the end of 2013 and publishes specific information on its collateral haircuts on its public website CMEGroup.com. We believe these are the appropriate forums for providing this information and believe that any further detail could potentially compromise an FMI's proprietary approach to risk management.

Principle 6 - Margin

Q.6.1. *Would it be preferable to report more frequently, eg monthly, or to report daily data over the period, the average over the period, highest and/or lowest values over the period, or data as at the end of the quarter?*

Q.6.2. *Would it be preferable to report more frequently, eg monthly, or to report daily data over the period, the average over the period, highest and/or lowest values over the period, or data as at the end of the period?*

Q.6.3./6.4.

How frequently are initial margin rates and key parameters, including correlations, changed? Is the information requested sufficient to provide a basic understanding of the initial margin model, or is more or different information necessary? (eg the weighting applied to historic data, the range of volatility shifts modelled, etc?)

Q.6.5. *How could this information best be presented to provide meaningful information across FMIs while avoiding disproportionate reporting burden? Is this information best presented at the level of clearing member accounts in each clearing service?*

As mentioned above, CME Clearing believes that reporting no more frequently than semi-annually is appropriate and that reporting frequency should be standardized to avoid undue burden at FMIs and to prevent negatively impacting the ability of risk staff to perform their primary risk management duties. CME Clearing appreciates the benefit of having FMIs publically report on initial margin requirements and is committed to meeting a reasonable reporting standard.

With regards to the margin information requested, CME Clearing is concerned that including unique margin characteristics, such as margin add-ons that are not applied to all clearing members, may allow some industry participants to infer proprietary details about clearing members that would violate its confidentiality obligations and expose confidential and proprietary business information of its clearing members. As such, CME supports reporting aggregate requirements which represent the total risk to which CME Clearing is exposed without compromising the confidentiality of its clearing members.

With regards to questions 6.3 and 6.4, CME has published much of its margin model information to its public website through the appropriate Rulebook or other disclosure. Detailed descriptions of each model are provided to each relevant regulatory body and clearing member, including the governance of parameter changes. Further, much of this information was requested in and will be published through CME Clearing's PFMI Disclosure, which it will publish to its public website by the end of 2013. CME believes that this is a sufficient level of disclosure so as to allow market participants to fully understand

the risk models employed by the Clearing House and that additional reporting will not enhance value to the market place.

CME Clearing agrees with the intent of question 6.5 which requests FMIs to report on backtesting results, including the number of initial margin coverage breaches. However, CME Clearing does not see the benefit of reporting on the excesses of the breaches, as this information would not necessarily provide meaningful insight into CME Clearing's coverage standards. If the goal of the reporting is to confirm that CME Clearing's performance is within the margin coverage standards required by both regulators and CME Clearing's internal rules, this will be better achieved by reporting backtesting breaches as the measurement of under-coverage.

For the purposes of 6.6 and 6.7, CME Clearing assumes that CPSS-IOSCO is requesting variation margin called on an aggregate level. To the extent this is the case, CME Clearing supports the requirements set out therein. However, we would be greatly concerned if the intent was to obtain daily variation margin information about individual clearing members or their clients for many of the same confidentiality reasons we've expressed previously. That said, CME Clearing supports reporting variation on an aggregate level across all clearing members to better indicate FMI exposure while maintaining the confidentiality their clients need to conduct their business.

Principle 7 – Liquidity risk

Q.7.1. *Would disclosures on composition of liquid resources reveal sensitive information about individual liquidity providers? (please say why, and how the disclosure could be amended to ensure adequate information on liquid resources is disclosed without this sensitivity?)*

Q.7.3. *How could this information best be presented to provide meaningful information across FMIs while avoiding disproportionate reporting burden? Would reporting this data present confidentiality issues and why?*

As with previous questions requesting clearing member specific data, CME Clearing strongly believes that individual clearing member reporting would be in violation of its obligations of confidentiality and would expose the proprietary and confidential business information of its clearing members. Moreover, in some cases it is inappropriate to disclose the overall size of secured liquidity resources since such disclosure would put the FMI in a difficult situation when negotiating the conditions of the liquidity arrangement, with each provider, such as the amount of credit line. CME Clearing believes the purpose of disclosure on liquidity resources is to allow external stakeholders to understand a FMI's ability to manage liquidity risk and help them assess the soundness of the FMI. Rather than disclosing the overall size of qualifying liquidity resources, an alternative method would be to require a FMI to disclose its policy for securing sufficient liquidity resources, the estimated largest payment obligations prescribed in item 7.3 and whether or not the FMI actually has access to the amount of liquidity, which is required in the relevant policy.

Principle 9: Money Settlements

CME Clearing agrees with the Committees that reporting on daily cash payment instructions¹ would improve market participants' understanding of the risks held at an FMI and their exposures to the market. Again, however, CME Clearing opposes the reporting of any single participant information, as suggested by question 9.3. This information would clearly allow market participants to ascertain confidential and proprietary information about clearing members and serves no real value in assessing the risk of a FMI. The peak and average information provided in questions 9.1 and 9.2 is more than sufficient for market participants to understand the risks to which an FMI is exposed.

Principle 10 – Physical deliveries

Q.10.5. Would this disclosure enable informed market participants to identify individual market participants and, if so, would that be materially commercially prejudicial to CCP participants and why?

Yes, disclosing any single participant information may allow informed market participants to infer confidential and proprietary information based on those reports. The ability of any market participant to ascertain such information clearly prejudices the market participant whose confidential strategies and information has been exposed.

Principle 13 – Default rules and procedures

Q.13.1. Would it be useful to publish quantitative disclosures following a default, with a suitable lag? (eg amount of loss versus amount of IM; amount of other financial resources used to cover losses; proportion of client positions closed-out /ported (in aggregate such that individual clients/members cannot be identified))? How long after the default would be appropriate?

The lessons learned from a default situation may be useful to market participants on a post default basis. However, clearing member defaults are rare and unique events. Each default experienced at CME Clearing exhibited distinctive characteristics that cannot be predicted by FMIs or their regulators. The unique characteristics of each default make it very difficult for FMIs or their regulators to identify the most relevant quantitative information with any accuracy. As such, no report or disclosure can be expected to provide useful information to assist in anticipating future events of default or the proper reaction thereto.

In addition, due to the legal constraints of U.S. Bankruptcy law, and the legal risks posed to FMIs on a post default basis, FMIs are loathe to reveal certain confidential information even years after an event

¹ Consistent with Principle 10 of the PFMI, the obligations an FMI assumes in FX final settlements (i.e. physical delivery) are subject to FMI discretion and generally limited to an obligation to provide reasonable replacement costs for losses incurred in the delivery process (rather than stepping in as principle to an FX exchange). Any money settlements reported under Principle 9 should be limited to the calculation of cash payment instructions relative to FX futures and options on futures should only include FMI variation margin pays and collects and the collection or payment of cash initial margin, consistent with the standards associated with other classes of cleared derivatives and any settlements that a FMI has stated it assumes with respect to any resulting physical delivery.

of default. Under discrete circumstances, CME Clearing has reported on a default, but only at least two years after the event, and even then, only rare circumstances call for default reports and the decision to issue these reports are most appropriately decided on an ad hoc basis by the courts, regulators and other governmental agencies. Notwithstanding the foregoing, CME Clearing makes available as much information as possible throughout the default process and welcomes the beneficial role the regulators play in a default scenario. Due to the complexity of local laws applying to defaults and their variable and unique nature, we do not believe it's appropriate for a standard setting body to issue concrete guidelines for the content and time lag for the release of default reports.

Principle 14 – Segregation and Portability

We do not believe this quantitative disclosure is applicable to CME Clearing since it is clearly based on the proposed standards under EMIR whereby FMIs must offer net omnibus and individual seg account structures.

Principle 15 – General business risks

Q.15.1. Would any CCPs have difficulty providing more frequently eg every six months or quarterly, and would this add significant value?

Q.15.2. Would any CCPs have difficulty providing more frequently eg every six months or quarterly, and would this add significant value?

Q.15.3. What information on revenue would best give an insight into risks facing the CCP, while respecting commercially sensitivity?

Q.15.4. Would any CCPs have difficulty providing more frequently eg every six months or quarterly, and would this add significant value?

CME Group, like all public companies in the US, reports on earnings, expenditure and liabilities as part of its regular 10-Q quarterly and 10-K annual reporting obligations. These reports are available on the company's public website and, subject to a lag, generally provide all the suggested quantitative information suggested under Principle 15. To the extent that an FMI, or its affiliated company, provides such reports, we do not believe it's a good use of resources for an FMI to duplicate its primary financial reporting obligations in another forum. That said, we do believe the provision of such information on an annual basis is valuable and that it would make sense for FMIs not subject to any such reporting standards to provide this information. We do not believe that there would be any significant advantage to the market if an FMI provided this information more frequently than annually and such a requirement could potentially conflict other disclosure standards to which an FMI is subject and require significant, and unnecessary expenditures by an FMI.

Principle 16 – Custody and investment risks

Q.16.2. *What summary statistics could be disclosed without revealing sensitive information? (eg on concentration, maturity)*

CME Clearing believes that it's generally appropriate for FMIs to provide summary statistics about the investment and rehypothecation of clearing member and client collateral. However, information on individual investment counterparties or detail that would allow market participants to ascertain and potentially use confidential information about an FMI's investment portfolio to their advantage should not be a reporting requirement of any FMI.

Principle 17: Operational Risk

CME Clearing believes that narrowly tailored information covering system performance at a summary level is valuable to the market place. For example, "system" should be defined in a way to ensure that only material FMI systems are included and to avoid any potential risk that FMIs can use selection bias to their advantage so as to provide more favorable reports. In addition, such information should be based on standard criteria so disclosures can be consistently and objectively reviewed by the marketplace when conducting due diligence on an FMI.

Principle 18 – Access and participation requirements

Q.18.2. *Could these metrics reveal information about individual members? If so, how should information about concentration across members be conveyed?*

As referenced in numerous areas above, CME Clearing cannot support any disclosure that could potentially allow informed market participants to obtain confidential and proprietary information of clearing members. While aggregating the top 5 or 10 firms will help to obfuscate the confidential details of clearing member activity, CME believes that this remains too granular to comply with its obligations of confidentiality to its clients. This would be particularly problematic where the information is broken down by participant type and participant jurisdiction. The only way to ensure the necessary level of confidentiality is to limit reports to aggregate data which ensures that individual clearing member activity cannot be identified. CME Clearing has developed reports to provide insight into the concentration of its membership insofar as it relates to the overall risk of the CME Clearing without inadvertently revealing confidential information. These reports are included in the publicly available 10-K report. CME Clearing feels that this is an acceptable and useful measurement of the Clearing House's concentration risk and that this type of disclosure should be sufficient.

Principle 19 – Tiered participation arrangements

Q.19.1. *Could these metrics reveal information about individual members? If so, how should information about concentration of client clearing be conveyed? Do CCPs have access to all the requested information?*

As previously discussed, any disclosure of individual FMI clients, whether clearing members or customers, would allow informed market participants to identify proprietary details about individual

firms, thus jeopardizing the integrity of the market. From our perspective, reporting the top 5 or 10 clients is too granular a measurement to ensure the necessary level of confidentiality.

Further, CME Clearing, as with most FMIs, maintains an omnibus account for its futures business and would not be able to distinguish between individual customers to report metrics on some customer business. CME Clearing suspects that other FMIs with omnibus account structures will also have difficulty reporting on these accounts. Additionally, CME Clearing does not believe that there is a tangible benefit to reporting on the number of clients to a public audience, as this is not a useful measurement of the risk faced by the Clearing House.

Principle 20 – FMI Links

***Q.20.4.** How could this information best be presented to provide meaningful information across CCPs while avoiding disproportionate reporting burden?*

In response to the questions asked on interoperability and cross-margining, CME Clearing asks that the unique characteristics of different links be kept in mind when determining what information should be disclosed. The disclosures proposed in the Report will not apply to each link relationship maintained by CME Clearing and we believe it prudent to apply a materiality standard to different link relationships since the goal of the disclosure is to provide transparency on the material risk posed by an FMI. Responses to the questions as currently formulated will not provide the insights to the overall risk of the Clearing House.

For example, 20.5 and 20.6 assume that FMIs collect collateral on behalf of their partners in all circumstances while, depending on the relationship, FMIs may only collect collateral for their own requirements for contracts cleared across link relationships. We believe it appropriate for CPSS-IOSCO to clarify what relationships are included in the term link, impose a materiality standard for any disclosure requirements and specify that disclosures are only required to the extent relevant.

Principle 23 - Disclosure of rules, key procedures, and market data

CME Clearing, like many other FMIs, reports volumes and trade activity on a daily basis on its public website. Additional average daily volume information is available in CME Group's 10-Q quarterly reports. CME Clearing believes the information currently provided to be sufficient to allow market participants to ascertain the risk to which CME is exposed and additional reporting would be duplicative and fail to add value.

Proposed disclosures 23.5 and 23.6 are of particular concern to CME Clearing considering the possibility that the provision of jurisdictional specific information would, in all likelihood, allow informed market participants to deduce confidential and proprietary information of its clearing members. CME Clearing currently provides a complete list of its direct clearing members on its public website. In addition, the vast majority of its direct clearing members, open interest and initial margin originate from clearing members based in the United States. As such, reporting any clearing member activity by jurisdiction would allow market participants to easily compare the list of clearing members, proposed jurisdictional ranking and other publicly available information to quantify the size of clearing member exposures from

non-US jurisdictions to CME Clearing. We expect that due to the strong local presence that many FMIs have in their home jurisdiction and relatively small cross border business that this would be consistent across most, if not all, FMIs.

CME Group would like to reiterate its appreciation for the opportunity to comment on the Report and looks forward to continued dialogue. Any questions should be referred to Tim Doar at tim.doar@cmegroup.com or (312-) 930-3162 or Sean Downey at sean.downey@cmegroup.com or (312) 930-8167.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tim Doar', written in a cursive style.

Tim Doar
Managing Director & Chief Risk Officer
CME Clearing