CME Group

April 11th 2014

The Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland

RE: Basel Committee on Banking Supervision Consultative Document: The Net Stable Funding Ratio

Dear Committee Members:

CME Group Inc. ("CME Group"), on behalf of its subsidiaries, Chicago Mercantile Exchange Inc. ("CME") and CME Clearing Europe Limited ("CME Clearing Europe"), would like to express appreciation to the Basel Committee on Banking Supervision ("BCBS") for the opportunity to comment on the BCBS Consultation: The Net Stable Funding Ratio ("BCBS 271"). CME Group is the parent of Chicago Mercantile Exchange Inc. ("CME"). CME is registered with the CFTC as a derivatives clearing organization ("DCO") and is one of the largest central counterparty ("CCP") clearing services in the world. CME's clearing house division ("CME Clearing") offers clearing and settlement services for exchange-traded futures contracts, as well as over-the-counter ("OTC") derivatives transactions including interest rate swaps ("IRS") and credit default swaps ("CDS"). CME Clearing Europe is a recognized clearing house with the Bank of England and is in the process of obtaining reauthorization under the European Market Infrastructure Regulation ("EMIR"). CME Clearing Europe provides clearing services for OTC derivatives in the commodity and interest rate markets and expects to begin clearing exchange traded products on behalf of the new CME Europe Limited exchange in the next few months.

CME Group supports the efforts of the BCBS to propose banking standards that promote the stability of the global financial system and believes such standards should support the commitments made by the G-20 and the BCBS to move standardized OTC products into a centrally cleared environment.

In the consultative document, BCBS 271, we believe that the unique characteristics of centrally cleared derivatives warrant consideration in the proposed Net Stable Funding Ratio separate from that of non-centrally cleared derivatives. While acknowledging that the BCBS goal of simplicity is achieved by treating all derivatives the same in a firm's calculation of their Net Stable Funding Ratio (NSFR), there are characteristics unique to centrally cleared derivatives, in particular those cleared at a Qualifying Central Counterparty ("QCCP"), that provide unique protections to cash flows associated with those derivatives that are unavailable in the non-centrally cleared market.

A clearing house operates to mitigate counterparty risk and to ensure proper settlements; in short they are the buyer to every seller, and seller to every buyer. In order for a clearing house to satisfy QCCP requirements, a clearing house must adhere to the Committee on Payment and Settlement Systems (CPSS) and International Organization of Securities Commissions (IOSCO) Principles for Financial Market

Infrastructures ("PFMI")[1]. PFMI 6: Margin states "A CCP should mark participant positions to market and collect variation margin at least daily to limit the build-up of current exposures". Ultimately, this PFMI results in an environment where the derivatives payable and receivable for QCCP cleared derivatives is negligible due to the limited outstanding exposures resulting from at least daily settlement cycles. Basically, all QCCPs remove any outstanding payment obligations on their derivatives positions on at least a daily basis which results in an extremely short window in which any funding obligations could accrue.

In the consultative document BCBS 271, we note that in paragraph 35 "Derivatives receivable net of derivatives payable if receivables are greater" are allocated a 100% Required Stable Funding (RSF) factor, while in paragraph 22 "Derivatives payable net of derivatives receivable if payables are greater than receivables" are allocated a 0% Available Stable Funding (ASF) factor. No differentiation exists in the calculation for whether these derivatives are centrally cleared with a QCCP or uncleared in the bilateral market. We note, and appreciate, that the Committee plans to "continue to evaluate alternative treatments for derivatives within the NSFR". As such, we believe it prudent to clarify that separate treatment will be provided for bank variation margin obligations to QCCPs in order to avoid any ambiguity regarding the impact of the QCCP daily margining settlement cycle on the NSFR. An example of the variation margin cash flows and settlement of any mark-to-market positive values would be if a firm engages in two trades with a QCCP, gaining $100 on the first trade and losing $200 on the second, at the end of that day the firm would be called for the net $100 loss.

Unique treatment for centrally cleared derivatives can be easily incorporated in the Required Stable Funding and Available Stable Funding factors for derivatives receivables and payables. One option is for the Required Stable Funding factor for QCCP cleared derivatives to be aligned with the Available Stable Funding factor for QCCP cleared derivatives in order to allow a full pass-through and zero net required stable funding due to the daily elimination of payment obligations via the variation margin process. Alternatively, the Committee should consider a full exclusion from the NSFR standard for any QCCP trades due to the negligible payables and receivables for QCCP cleared positions as a result of the daily variation margin mechanism. Both of these approaches accurately reflect the greatly reduced risk exposures and increased operational efficiencies of the centrally cleared environment and would incent central clearing in a manner consistent with the G20 commitments to migrate standardized OTC products into a centrally cleared environment.

This solution will not present significant additional complexities for firms since they are already incented to account for their centrally cleared derivatives separately from their non-centrally cleared derivatives for risk-based capital purposes. As such, the differentiation between centrally cleared and non-centrally cleared derivatives in the calculation of the Net Stable Funding Ratio should place a relatively low burden of complexity on firms while simultaneously incenting firms to migrate trades to a centrally cleared environment.

[1] Principles for financial market infrastructures (April 2012): http://www.bis.org/publ/cpss101.htm

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We would be happy to further discuss and clarify any of the above issues with the BCBS. If you have any comments or questions regarding this submission, please feel free to contact Kim Taylor, President, CME Clearing at +1 312 930-3156 and Kim.Taylor@cmegroup.com. Alternatively, you may contact Lee Betsill, CEO, CME Clearing Europe at +44 203 379 3120 and Lee.Betsill@cmegroup.com.

Sincerely,

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