



October 10th, 2014

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

Re: Basel Committee on Banking Supervision Consultative Document: Review of the Pillar 3 disclosure requirements

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"), appreciates the opportunity to comment on the Basel Committee for Banking Supervision's (BCBS) consultation paper regarding Pillar 3 disclosure requirements standards. CME Group is the parent company of four Designated Contract Markets ("DCMs"): the Chicago Mercantile Exchange ("CME"), the Board of Trade of the City of Chicago, Inc. ("CBOT"), the New York Mercantile Exchange, Inc. ("NYMEX"), and the Commodity Exchange, Inc. ("COMEX"). These DCMs 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 Clearing and CME Clearing Europe together offer clearing and settlement services for exchange-traded futures contracts, as well as over-the-counter ("OTC") derivatives transactions. CME Clearing Europe is regulated and supervised by the Bank of England as an authorized central counterparty under the European Market Infrastructure Regulations ("EMIR"). CME Clearing is registered with the CFTC as a derivatives clearing organization ("DCO"), is one of the largest central counterparty ("CCP") clearing services in the world, and has been deemed a systemically important financial market utility by the Financial Stability Oversight Council and is in the process of becoming recognized under EMIR.

CME Group would like to express its support of the BCBS' efforts to provide more robust and standardized disclosure requirements through its proposed accords, in line with the G20 commitment to reduce opacity and improve risk management in the non-centrally cleared derivatives markets. CME Group is largely in support of the international principles published by the BCBS and how they addressed Pillar 3 disclosure requirements. One important component that CME Group asks the BCBS to consider as an additional disclosure is related to the BCBS and International Organization of Securities Commissions ("IOSCO") Margin requirements for non-centrally cleared derivatives¹ and the application of the €50M initial margin threshold.

¹ Margin requirements for non-centrally cleared derivatives; Basel Committee on Banking Supervision and Board of the International Organization of Securities Commissions; <http://www.bis.org/publ/bcbs261.pdf>

As background, the BCBS & IOSCO Margin requirements for non-centrally cleared derivatives established a €50M initial margin threshold, below which two counterparties to a transaction could agree not to exchange initial margin. This threshold was determined to mitigate some of the effects that the new collateral requirements would have on smaller participants in the OTC marketplace, and the risk these requirements could inhibit certain counterparties' access to the risk management benefits that OTC derivatives can provide. CME Group believes that in the spirit of the G20 mandate, a firm should disclose the aggregate amount of uncollateralized initial margin exposure they have and the number of counterparties for which initial margin has not been exchanged in addition to the Basel III Pillar 3 disclosure requirements contained in the proposal. Further, firms should disclose the amount and collateral type of initial margin they require at their discretion from counterparties subject to the €50 million in threshold exemption.

Adequate disclosure of a firm's use of the €50M initial margin threshold is the only way investors, credit providers, and CCPs have to gauge how a particular firm is applying this threshold across its counterparties, and how much uncollateralized derivatives exposure that firm has on its books. The €50M threshold introduces an incentive for firms to proactively manage their exposures to any one counterparty to stay below the threshold, and the utilization of multiple counterparties to increase the firm's aggregate uncollateralized exposures. A disclosure requirement would address this incentive by requiring the necessary transparency for all counterparties in the OTC derivatives markets and further the market discipline objective of the BCBS.

Multiple small uncollateralized exposures could result in material risk on an aggregate basis, and adequate disclosure is the best way to combat the risk of large opaque uncollateralized risk exposures of financial firms. In the BCBS and IOSCO; second consultative document for margin requirements for non-centrally cleared derivatives (BCBS 242), they stated that the €50M threshold was originally calibrated to alleviate €1T in initial margin requirements for the global derivatives markets.² Adequate disclosure would allow investors access to the information to determine whether the estimate is accurate and where the potential €1T uncollateralized initial margin exposures lie.

Reporting this figure would be consistent with the G20 reforms to bring new transparency to the OTC derivatives marketplace. The disclosure could be incorporated as a supplementary component of "Template CCR5: Composition of collateral for counterparty credit risk exposure." An example of how this information may be reported is seen below:

² <http://www.bis.org/publ/bcbs242.pdf> (Page 26):

"The near-final proposal requires two-way initial margin requirements with a universal threshold of €50 million. The initial margin that would result from applying the near-final proposal to the derivative portfolios that are expected to remain uncleared at the QIS respondent firms is roughly €558 billion. Extrapolating from the QIS respondents to the entire global derivatives market would raise the estimate to roughly €0.7 trillion. Margin requirements using a zero threshold rather than a threshold of €50 million, as proposed in the July 2012 consultative paper, would result in roughly €1.3 trillion of initial margin at QIS respondents or roughly €1.7 trillion for the entire global market. Since the near-final proposal would only apply the requirements to new transactions, the margin would be posted gradually over time as new transactions replace old ones."

Initial margin calculated using the standardized schedule for non-centrally cleared derivatives	
Initial margin calculated using any approved internal model, as applicable, and the standardized schedule for other non-centrally cleared derivatives	
Number of obligors below the €50M initial margin threshold	
	Fair value of collected initial margin
Cash – domestic currency	
Cash – other currencies	
Domestic sovereign debt	
Other sovereign debt	
Government agency debt	
Corporate bonds	
Equity Securities	
Other Collateral	
Total	

In line with BCBS's proposed disclosure format, the table includes the collateral type, allowing for greater insight into the credit risk exposures of the firm.

The BCBS has an opportunity to add further transparency to the OTC derivatives market through its proposed disclosure requirements, in line with its stated goals: "The principles aim to provide a firm foundation to achieve transparent, high-quality Pillar 3 risk disclosures that will enable users to understand more clearly a bank's business and its risks."³ CME Group believes it critical to add these disclosure requirements to the final standards to achieve these goals.

CME Group reiterates its support of the international principles outlined by the BCBS for Pillar 3 disclosure requirements and looks forward to their implementation in a manner consistent with the G20 policy goals which support the use of such requirements to provide transparency and, consequently, risk mitigation. However, we have identified additional disclosures critical to bringing the appropriate level of transparency to market participants and other stakeholders receiving such risk management information. We believe that, due to the policy goals of the G20 and the inherent riskiness of the bespoke, non-centrally cleared market, these risk exposures should be subject to enhanced disclosure requirements, which would mitigate circumvention of the goals of the G20 and financial market regulators.

³ Review of the Pillar 3 disclosure requirements; Basel Committee on Banking Supervision; page 6;
<http://www.bis.org/publ/bcbs286.pdf>



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 Sunil Cutinho, President, CME Clearing at +1 312 634-1592 or Sunil.Cutinho@cmegroup.com.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sunil Cutinho", with a stylized, cursive script.

Sunil Cutinho
President, CME Clearing
Chicago Mercantile Exchange, Inc.
20 South Wacker Drive
Chicago, IL 60606