CME Group

October 1, 2015

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 Credit Valuation Adjustment (CVA) risk framework

Dear Committee Members:

CME Group Inc. ("CME Group")[1], 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") consultative document, Review of the Credit Valuation Adjustment ("CVA") risk framework. CME Clearing and CME Clearing Europe offer clearing and settlement services for exchange-traded futures contracts, as well as over-the-counter ("OTC") derivatives transactions. Both of these entities adhere to the locally implemented version of the Committee on Payments and Market Infrastructures[2] ("CPMI") and International Organization of Securities Commissions ("IOSCO") Principles for Financial Market Infrastructures[3] ("PFMI"), a requirement to be considered a Qualifying Central Counterparty ("QCCP") under the Basel framework[4]. In the US, the PFMIs were locally implemented in a manner consistent with the global standards by the Commodity Futures Trading Commission ("CFTC") through the

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[1] 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 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.

[2] The Committee on Payment and Settlement Systems ("CPSS") was renamed as CPMI on September 1, 2014.

[3] Committee on Payment and Settlement Systems & Technical Committee of the International Organization of Securities Commissions (CPSS-IOSCO), Principles for financial market infrastructures (April 2012)

[4] Basel Committee on Banking Supervision: Capital requirements for bank exposures to central counterparties, BCBS 282 (April 2014)

Derivatives Clearing Organizations and International Standards; Final Rule[5], and in the European Union through the European Market Infrastructure Regulation ("EMIR")[6].

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 Group of Twenty ("G-20")[7] and the BCBS to move standardized OTC products into a centrally cleared environment to reduce systemic risk. The opacity and lack of risk management standards in the bi-lateral OTC derivatives markets that acted to exacerbate the financial crisis that began in 2007 should not be repeated, and ensuring an appropriately calibrated CVA risk framework will be a key portion of these reform standards. Centrally cleared markets such as those served by CME Clearing and CME Clearing Europe did not contribute to the financial crisis or drive the need to bail out large market participants. This performance by CCPs led to the decision of the G-20 to push standardized OTC products to the transparent, centrally cleared environment.

In the consultative document, the BCBS has indicated that the CVA capital charge would not apply to derivatives transactions that are cleared through a QCCP. CME Group is supportive of this continued distinction in the CVA risk framework given the superior risk management benefits afforded in the centrally cleared environment that are absent in the bi-lateral OTC derivatives markets.

QCCPs provide essential benefits to the global financial system as risk neutral counterparties, becoming the buyer to every seller and seller to every buyer for the transactions conducted on their markets. Furthermore, QCCPs exist as dedicated collateralized entities to protect the integrity of the markets they serve. The CPMI-IOSCO PFMI's, requirements for a QCCP designation, establish standards for CCPs to collateralize potential future exposures to all of their participants and to maintain dedicated financial resource waterfalls that serve to protect their markets during normal market conditions and times of market stress. These financial resources include initial margin, CCP contributed capital, default fund and assessment powers, at a minimum. This waterfall of resources, in addition to the market monitoring, credit controls and daily reset of exposures evidence the unique roles that CCPs, which maintain flat books, play in the financial markets. These dedicated financial resources that exist in the centrally cleared markets are absent in the bespoke bi-lateral OTC derivatives market, and serve fundamentally different purposes than any collateral that could be exchanged in the bi-lateral OTC markets. For these reasons, we applaud the BCBS' decision to distinguish QCCPs from risk taking market participants as outlined by the BCBS in their CVA risk framework consultation.

We would be happy to further discuss the important benefits that QCCPs provide to the global financial system 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.

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[5] http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2013-27849a.pdf
[6] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:201:0001:0059:EN:PDF
[7] https://g20.org/wp-content/uploads/2014/12/Pittsburgh_Declaration_0.pdf

Sincerely,

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