CME Group

November 24, 2014

VIA ELECTRONIC MAIL

Office of the Comptroller of the Currency, Treasury
[Docket ID OCC-2011-0008]
Regs.comments@occ.treas.gov

Board of Governors of the Federal Reserve System
[Docket No. R-1415] [RIN 7100 AD74]
Regs.comments@federalreserve.gov

Federal Deposit Insurance Corporation
[RIN 3064-AE21]
Comments@fdic.gov

Farm Credit Administration
Comm@fca.gov

Federal Housing Finance Agency
[RIN 2590-AA45]
RegComments@fhfa.gov

RE: Margin and Capital Requirements for Covered Swap Entities; Proposed Rule

Dear Sir/Madam:

CME Group Inc. ("CME Group")[1], would like to express its appreciation to the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System ("Fed"), the Federal Deposit Insurance Corporation ("FDIC"), the Farm Credit Administration ("FCA"), and the Federal Housing Finance Agency ("FHFA"), together the "Agencies", for the opportunity to comment on the proposed rule: Margin and Capital Requirements for Covered Swap Entities.

CME Group is broadly supportive of the proposed rules and the Basel Committee on Banking Supervision ("BCBS") and International Organization of Securities Commissions ("IOSCO") international standards[2] for margin requirements for non-centrally cleared derivatives. However, we are concerned that the proposed rules, in their current form, will incent firms to maintain non-cleared portfolios with multiple counterparties to stay below the notional and margin thresholds which will result in them keeping their non-mandated swaps outside of the centrally cleared market, thereby increasing systemic risk to the global economy. Our concerns are due to the flexibility afforded under the initial margin model requirements in the proposed rules, combined with the $65 million initial margin and $3 billion notional thresholds. We note that this flexibility in conjunction with the thresholds will likely result in the creation of swaps that are substantially similar, but not identical to, mandated cleared swaps to allow market participants to take advantage of the reduced costs afforded under the non-cleared margin rules.

[1] CME Group is the parent company for four designated contract markets: the Board of Trade of the City of Chicago, Inc. ("CBOT"), the New York Mercantile Exchange, Inc. ("NYMEX"), the Commodity Exchange, Inc. ("COMEX") and the Chicago Mercantile Exchange Inc. ("CME"). CME is also registered as a derivatives clearing organization under the Commodity Exchange Act ("CEA") and is deemed registered as a clearing agency under the Securities Exchange Act of 1934 ("Exchange Act") with respect to swaps classified as "security-based swaps", as that term is defined in the CEA and the Exchange Act. CME is also designated as a systemically important financial market utility under Title VII of the Dodd-Frank Act. ("COMEX") and the Chicago Mercantile Exchange Inc. ("CME"). CME is also registered as a derivatives clearing organization under the Commodity Exchange Act ("CEA") and is deemed registered as a clearing agency under the Securities Exchange Act of 1934 ("Exchange Act") with respect to swaps classified as "security-based swaps", as that term is defined in the CEA and the Exchange Act. CME is also designated as a systemically important financial market utility under Title VII of the Dodd-Frank Act.

[2] Margin requirements for non-centrally cleared derivatives - final document; The Basel Committee on Banking Supervision and the International Organization of Securities Commissions; http://www.bis.org/publ/bcbs261.htm

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Background

During the Federal Reserve's open meeting on September 3rd, 2014 to discuss the proposed rules,[3] it became apparent that the Agencies are operating under a working assumption that the proposed rules will lead to initial margin requirements for non-centrally cleared derivatives to be 40-45% higher than the initial margin requirements for similar products at a central counterparty ("CCP"), thereby creating an incentive for swaps participants to clear their swaps at a CCP. This assumption is incorrect due to the different and additional requirements for CCP initial margin methodologies that go above and beyond the requirements in the proposed rules. The Agencies are operating under this assumption since all things being equal, a 10 day margin period of risk ("MPOR"), as required under the proposed rules, will lead to a 40-45% higher initial margin requirement than the 5 day MPOR that can be applied for OTC products cleared by CCPs. This assumption fails to account for the less restrictive initial margin model calibration requirements in the proposed rules as compared to the requirements for initial margin model calibration at CCP's, which are largely based on the Committee on Payments and Market Infrastructures ("CPMI")[4] and the IOSCO Principles for financial market infrastructures ("PFMIs").[5]

We believe it is important to provide an example to dispel the idea that a 40-45% differential between non-cleared and cleared will exist based on the proposed rules. The proposed rules require that initial margin models account for a simple *confidence interval* of 99% for initial margin model calibration, while the US Commodity Futures Trading Commission ("CFTC") require CCPs to maintain a 99% initial margin *coverage* on an ex-post basis.[6] Consequently, CME calibrates its initial margin requirements for its over-the-counter ("OTC") interest rate swaps using a 99.7% confidence level sampling to meet a 99% coverage standard. As demonstrated below, the differences from this seemingly tiny detail are striking, with the initial margin difference between a trade subject to 10 day MPOR plus 99% versus 5 day MPOR plus 99.7% being reduced to a mere **10%**.

Example - 5 year, receive fixed and pay floating rate interest rate swap	**CME Group Initial Margin**	**Proposed Rules Initial Margin**
Period of Risk	5 Days	10 Days
Initial Margin Model Confidence Interval *	99.7%	99.0%
Resulting Initial Margin as % of Notional	**1.94%**	**2.14%**
Additional Risk Management Techniques Common to CCP's		
Volatility Floor **	0.12%	0.00%
Liquidity Component +	0.41%	0.00%
All-in Initial Margin Requirement	**2.47%**	**2.14%**

* Margin Models at CCP's are calibrated to a higher than 99% confidence interval to ensure 99% coverage on an *Ex-Post basis*

** Volatility floors are used in CCP models to guarantee a minimum volatility is always considered

+ CCP's models apply a form of additional margins on large portfolios of even the most liquid products

[3] Meeting Transcript available at; http://www.federalreserve.gov/mediacenter/files/open-board-meeting-transcript-20140903.pdf

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

[5] *See* Comm. Payment and Settlement Systems & Technical Comm. Int'l. Org. Securities Comms.(CPSS-IOSCO), *Principles for financial market infrastructures* 11 (April 2012)

[6] Federal Regulation - Title 17: Commodity and Securities Exchanges, Part 39 – Derivatives Clearing Organizations, Subpart B – Compliance with Core Principles, 39.13 (g) (2) (iii)

If you further add the additional risk management techniques common to CCP's, and required by CFTC regulation,[7] such as volatility floors and liquidity add-ons, it is clear that, notwithstanding the 10 day MPOR, the proposed regulations allow for initial margin for non-cleared derivatives at levels lower than those required of clearinghouses in the US and EU subject to 5 day MPOR.[8] CME Group implores the Agencies to reconsider their proposed rules that apply a simple 10 day MPOR to non-cleared derivatives, and ask that the Agencies implement a final rule that applies standards that actually result in non-cleared derivatives initial margin being at least 40% higher than that of cleared derivatives initial margin.

Another point of consideration is the proposed $65M initial margin threshold, below which a firm can choose to not collect initial margin. CME Group would like to draw the Agencies attention to conclusions recently reached by the OTC Derivatives Assessment Team ("OTC DAT"), a team commissioned by the OTC Derivatives Coordination Group comprised of the chairs of the Financial Stability Board ("FSB"), the Committee on the Global Financial System ("CGFS"), BCBS, IOSCO, and the CPMI. In October 2014, the OTC DAT concluded for those firms "exempt from capital requirements on counterparty risk exposures" and also "exempt from bilateral margin requirements":[9]

- *Direct Clearing: Incentives to clear centrally may not be present in view of margin and capital requirements for central clearing.*
- *Indirect Clearing: Incentives depend on cost pass-through from the dealer. Incentives to centrally clear may weaken due to capital requirements for a clearing member's exposure to its clients.*

The OTC DAT conclusions make clear that any client not subject to capital requirements and non-cleared initial margin requirements will have little incentive to centrally clear their derivatives exposures. This may ensure that the majority of non-bank users will continue to focus their activity in the non-cleared derivatives markets to the extent possible, thereby undermining the goals of the G-20 to reduce systemic risk through central clearing. Another consequence of having a large segment of end-users not clearing is the lack of diversification and potential for greater buildup of directional risk at clearing firm entities. While CME Group understands that deviating from international standards may sometimes be difficult, we believe that, at a minimum, the Agencies should institute disclosure requirements for firms utilizing the non-cleared initial margin thresholds.

Finally, CME Group would like to comment on the industry proposal to create a margin sharing system whereby two parties to a non-cleared swap enter into an agreement to setup a custodian account that would pay out upon one of the counterparty's default. This would be done with the aim to charge each side to the trade half of the initial margin requirement. This is a direct contradiction of the international principles and would undermine the safety of the financial markets in times of crisis. As a result, CME Group asks the agencies to specifically rule out this approach in their final rule.

In the following sections we expand on the topics covered in the above paragraphs as follows:

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[7] *See* CFTC Regulations 39.13(g)(2)(ii)(D) and 39.13(g)(13)

[8] We note that EMIR Article 28 contains similarly enhanced requirements to address procyclicality risk at CCPs such as a 25% margin buffer, longer look back periods and specific weightings for stressed observations.

[9] OTC Derivatives Assessment Team, *Regulatory reform of over-the-counter derivatives: an assessment of incentives to clear centrally* (Oct 2014), available at: http://www.bis.org/publ/othp21.htm

(I) The non-cleared initial margin standards must require an ex-post 99% initial margin coverage, not simply a 99% confidence level sampling, to better reflect the liquidity and risk profile of the non-cleared markets and to retain appropriate incentives to utilize central clearing. The initial margin should also include components to incorporate the cost of liquidating large portfolios during periods of stress, as well as volatility floors to guarantee a minimum volatility is always considered

(II) Increased disclosure requirements regarding aggregate uncollateralized exposures should be included in the final rules

(III) Final Rules should ensure that 100% of gross initial margin will be exchanged by both parties to a transaction to remain consistent with international principles

(I) Initial Margin Model Calibration

In light of the margin requirements applied to CCPs that adhere to the PFMIs, CME Group recommends the following modifications to the margin rules for non-cleared swaps to align the rules with the risk profile of the non-cleared markets and the G-20 commitments in favor of central clearing:

a) Modify the quantitative requirements of Section 8, "Initial Margin models and standardized amounts" to require a margin model calibration based on 99% ex-post coverage, not simply a 99% confidence level sampling

For background, attached below is the excerpt from the proposed regulations for the initial margin model calibration for these non-cleared swaps[10]:

> *The covered swap entity's initial margin model must calculate an amount of initial margin that is equal to the potential future exposure of the noncleared swap, non-cleared security based swap or netting set of non-cleared swaps or non-cleared security-based swaps covered by an eligible master netting agreement.* ***Potential future exposure is an estimate of the one-tailed 99 percent confidence interval for an increase in the value*** *of the non-cleared swap, non-cleared security-based swap or netting set of non-cleared swaps or non-cleared security-based swaps due to an instantaneous price shock that is equivalent to a movement in all material underlying risk factors, including prices, rates, and spreads, over a holding period equal to the shorter of ten business days or the maturity of the non-cleared swap or non-cleared security-based swap* (emphasis added)

In contrast, the CFTC regulation that governs the same requirement for CCPs is worded as follows:[11]

> *(iii)* ***The actual coverage of the initial margin requirements*** *produced by such models, along with projected measures of the models' performance,* ***shall meet an established confidence level of at least 99 percent****, based on data from an appropriate historic time period, for:* (emphasis added)

[10] Prosposed Rules, § __.8 (d) (1)

[11] Federal Regulation - Title 17: Commodity and Securities Exchanges, Part 39 – Derivatives Clearing Organizations, Subpart B – Compliance with Core Principles, 39.13 (g) (2) (iii)

In contrast with CFTC regulations, CME Group believes that the proposed rules allow for flexibility in the internal margin model for non-cleared derivatives which could result in potentially insufficient margin coverage and lower, or similar, margin levels for 10 day MPOR calculations compared to 5 day MPOR under CFTC regulations. As demonstrated in the introduction, the proposed regulations when viewed from the perspective of actual 99% coverage for 5 day MPOR versus 99% confidence for 10 day MPOR allow for a gap of 10% between 5 day and 10 day, not including other CCP margin add-ons, rather than the 40-45% assumption on which the Agencies appear to be currently basing their proposals.[12] The Agencies can easily correct for this potential unintended consequence through the inclusion of an explicit additional requirement in Section 8 of the proposed rules that any non-cleared margin model satisfy a 99 percent coverage standard on an *ex-post* basis over a reasonable look-back horizon.

Appropriate calibration and thorough back testing are required to ensure that these initial margin models provide this 99% level of coverage, which can sometimes require calibration at higher confidence intervals of 99.5% or even 99.7%. Initial margin models for non-cleared derivatives provided to the competent authorities should explicitly detail the model parameters used in the calibration stage and evidence coverage on an *ex-post* basis. Any other approach would invite participants in the illiquid, bilateral OTC markets to potentially implement margin levels that are similar, if not lower, than the margin levels required of CCPs offering clearing services in more liquid and fungible OTC contracts. We note that we expressed a similar view on 99% coverage to the European authorities in response to their proposed regulations,[13] and hope margin coverage levels are aligned internationally.

CME Group recommends that the Agencies add language to the initial margin model standards that specifically requires initial margin models ensure 99% coverage over a period of at least 10 days as evidenced by *ex-post* testing over a reasonable look-back horizon.

b) The Agencies should incorporate a liquidation add-on component into their requirements for the calibration of initial margin models

CME Group believes that Section 8 of the proposed regulations should include additional language around the liquidity components of the non-cleared derivative initial margin models as required under CFTC regulations.[14] Liquidity of products and the size of relative portfolios are important considerations in determining the overall initial margin requirements, and these are considerations that are typically outside the realm of requirements on MPOR.

Typical value-at-risk ("VaR") models scale linearly with portfolio size, however, it is well-known that the cost of liquidation increases super-linearly with size. CCP's models, therefore, are required to apply a form of additional margins on large portfolios of even the most liquid products, and also during times of market crisis which would require significantly higher collateral. It is imperative that initial margins for non-cleared derivatives include provisions for these additional costs beyond the costs computed by the base initial margin models.

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[12] CME further notes that the rules in the European Union require OTC swaps initial margin requirements be calibrated at a 99.5% confidence interval; Article 24 (1) of Commission Delegated Regulation (EU) No 153/2013

[13] CME Group Comment Letter available at https://www.eba.europa.eu/regulation-and-policy/market-infrastructures/draft-regulatory-technical-standards-on-risk-mitigation-techniques-for-otc-derivatives-not-cleared-by-a-central-counterparty-ccp-/-/regulatory-activity/consultation-paper

[14] 39.13(g)(13)

As evidenced in the financial crisis that began in 2007, non-cleared derivative transactions can take months and years for a firm to liquidate or appropriately hedge with counterparties. The 10 day MPOR under the current proposed regulations would be wholly inadequate by itself to account for the risk of these transactions, and a liquidity component to the initial margin model is where this could be accounted for. CME Group urges the Agencies to consider adding a liquidity component into their final rules.

c) The Agencies should incorporate a more robust concept of volatility floors to account for Key Principle 3 of the final international standards[15]

CME Group has long employed the practice of incorporating volatility floors into our initial margin modeling in order to guarantee a minimum amount of volatility is always considered. This practice helps to limit the extent that our margins can fall below levels captured under standardized margin modelling methods. The proposed rules seem to account for some of this risk in Section 8 (d) (2), however in order to better achieve the goal of Key Principle 3 of the final international standards to "limit the extent to which the margin can be procyclical"; CME Group asks the agencies to reconsider their proposed text to include additive requirements addressing procyclical risk in a manner consistent with the markets regulators in the United States and Europe.

d) Ultimately, the Agencies should add a floor to the calibration of the initial margin model for non-cleared derivatives that ensures the initial margin calculated for an non-cleared derivative is 40.8% higher than that of a cleared derivative with similar risk characteristics when available at a Qualifying Central Counterparty "QCCP"[16]

CME Group believes the initial margin requirements for non-cleared derivatives should be higher than that of a similar cleared product to align with the G-20 commitments for central clearing and to reflect the risk management benefits of central clearing and the fact that clearinghouse margin levels are set without commercial differentiation between counterparties. The PFMIs and clearing regulations of markets regulators eliminate any potential race to the bottom for CCP's initial margin levels and we believe it important to adopt similar techniques considering the bespoke products and relative opacity in the bilateral market.

The Agencies today are operating under an assumption that the proposed rules will align to a 40-45% difference in initial margin requirements between cleared and non-cleared swaps. As demonstrated in the example in the introduction, this is simply not the case based on the proposed rules as written, and CME Group believes the only way to actually ensure a 40-45% difference would be to specifically require this differential in the final rules.

A 40.8% differential floor is consistent with the scaling factors recommended in the US capital requirements regime,[17] where firms are allowed to scale their derivative exposures based on the margin

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[15] BCBS 261; page 11

[16] Basel Committee on Banking Supervision, Capital Requirements for bank exposures to central counterparties – final standard, April 2014, available at http://www.bis.org/publ/bcbs282.htm; "A **qualifying central counterparty** (QCCP) is an entity that is licensed to operate as a CCP (including a license granted by way of confirming an exemption), and is permitted by the appropriate regulator/overseer to operate as such with respect to the products offered. This is subject to the provision that the CCP is based and prudentially supervised in a jurisdiction where the relevant regulator/overseer has established, and publicly indicated that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures. "

[17] Federal Register Vol. 78, No. 198, § .34 (e); where 40.8% represents (1 / 0.71 = 40.8%), our approximately recommended floor differential

period of risk of the product, with products subject to a 10 day MPOR scaled 40.8% higher than products under a 5 day MPOR. This scaling and subsequent higher margin requirement would accommodate the additional risk management requirements applied to QCCPs that do not exist in the non-cleared derivative marketplace. These additive requirements stem from efforts of the QCCP to maintain robust risk management standards and resources, such as contributions to a QCCP's guaranty fund. This explicit floor and additional 40.8% requirement would help incent firms to centrally clear their derivatives and provide clarity into the calibration of initial margin models. This floor could be inserted into Section 8 (f)(2)(ii), "Initial Margin models and standardized amounts", as additional language.

(II) Adequate Disclosures

> **Firms should disclose the aggregate uncollateralized exposures created by their use of the $65M initial margin threshold, across how many counterparties it is dispersed, and how many of those counterparties are inter-related (i.e. legally separate investment funds backed by the same investment advisory group)**

The opacity and lack of risk management in the non-cleared derivatives markets acted to exacerbate the financial crisis that began in 2007 and led the G-20 to commit in 2009 to reform this marketplace. Initial margin requirements for non-centrally cleared derivatives are a key component of this reform program, and CME Group is largely in support of the international principles published by the BCBS and IOSCO and how they addressed the impacts of these regulations on small and medium sized firms.

An important component of the international principles was the establishment of the €50M ($65M USD) initial margin threshold, below which two counterparties to a transaction could agree to not exchange initial margin. This threshold was determined to mitigate some of the effects that the new collateral requirements would have on the OTC marketplace, and how 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 G-20 mandate, a firm should disclose the aggregate amount of uncollateralized initial margin exposure they have, across how many counterparties, and how many of those counterparties are inter-related on a quarterly basis along with the firm's financial statements.

Adequate disclosure around the $65M initial margin threshold is the only way for an investor, credit provider, or even a CCP to tell how a particular firm is applying this threshold across its business, and how much exposure a firm has in this regard. The $65M threshold introduces the potential for loopholes and will incent firms to proactively manage their thresholds across their dealer counterparties. Disclosure would help to negate some of these incentives and will provide transparency across the dealer community and to counterparties in the OTC derivatives markets. Small portfolios with uncollateralized initial margin can result in very significant exposures, potentially up to €1 trillion dollars according to the BCBS[18], and adequate disclosure is the best, and most transparent way, to combat this.

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[18] 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."

This disclosure would result in no additive cost because firms are required under the proposed rules to monitor at the consolidated level how the threshold is applied. Reporting this figure would be consistent with the G-20 reforms to bring new clarity to the OTC derivatives marketplace, and a sample disclosure from a firm could be as simple as follows:

> As of December 2014, Firm A has calculated an aggregated initial margin requirement of $500M at the firm level for its non-centrally cleared OTC derivatives, of which $400M has been collected for all of its non-centrally cleared OTC derivatives across X amount of counterparties, with X amount of those counterparties actually sponsored by Y parent counterparties.

The Agencies have an important opportunity in these proposals to add new clarity to the OTC derivatives marketplace and CME Group asks them to consider requiring this single disclosure point in their final rules.

(III) Ensure 100% exchange of margin

100% of gross initial margin should be exchanged by both parties to a transaction to remain consistent with the International Principles (Key Principle 5)[19]

Initial margin is a vital risk mitigation technique for derivatives trading, both under a centrally cleared and non-centrally cleared environment. The final international principles from the BCBS and IOSCO recognized this and stated as follows under Key Principle 5:

> *Because the exchange of initial margin on a net basis may be insufficient to protect two market participants with large gross derivatives exposures to each other in the case of one firm's failure, the gross initial margin between such firms should be exchanged.*

CME Group is aware of some proposals[20] that advocate a "margin sharing" model, whereby each party to a bilateral derivatives transaction posts half of the aggregate initial margin requirement into a separate custodian account that becomes property of the non-defaulting party if the other side defaults. CME's understanding of this model is that it creates a "half-defaulter-pay" model, where only half of the originally calculated initial margin requirement for a non-centrally cleared derivative is available upon a market participant default. This directly contradicts the international principles of incentivizing central clearing and risks pushing small and medium sized firms to trade products into the riskier non-cleared derivatives markets. Initial margin requirements should be calculated on an individual market participant basis, meaning two requirements for each bilateral transaction, and each market participant should be responsible for 100% of their margin requirements. CME Group asks that the Agencies be explicit in their final rules to prevent this potentially significant area of regulatory arbitrage.

A Note on Timing and the $3B Calibration

Timing

CME Group believes that the phase in approach under the proposed rules is appropriate and aligns with the international standards. We note that variation margin is already commonly exchanged in the non-

[19] BCBS 261; page 19

[20] http://www.risk.net/risk-magazine/feature/2335760/dealers-push-margin-sharing-as-answer-to-collateral-crunch

cleared derivatives markets and the $65M initial margin threshold will also act to delay any sudden impact on small counterparties not accustomed to the exchange of margin in the non-cleared derivatives markets. The 2009 G-20 commitment to improving the OTC derivatives market called for standardized OTC derivatives to be cleared by end-2012 and for non-cleared swaps to be subject to higher capital requirements. The proposed rules and phase-in are already well behind this deadline, and we recommend the Agencies move forward with the current timeline as is to prevent any further delay of the standards that will contribute to the ability of clearinghouses to successfully navigate the financial crisis and will serve to mitigate the impact of future systemic events.

$3B Gross Notional Threshold Calibration

CME Group notes that the proposed rules gross notional threshold for initial margin requirements of $3B is partially calibrated using estimates of CME Group's margin requirements for OTC interest rate and OTC credit default swap contracts. The Agencies referenced average initial margin rates of about 2% of gross notional for both contracts, however, CME Group would like to note that the minimum measure should be 2.8% (1.94% at CME, not including add-ons, multiplied by 145%), leading to a lower gross notional threshold of $2.3B. Consequently, CME Group urges the Agencies reduce the notional levels included in the rules to, at a minimum, $2.5 billion to reflect actual margin levels for non-cleared swaps to eliminate the risk that illiquid, non-cleared OTC derivatives portfolios will be below the gross notional threshold despite the fact that they would otherwise require the posting of more than $65M in initial margin. Failing to account for actual margin levels required of non-cleared portfolios will allow the exact type of portfolios most in need of margin (those that contain the riskiest, most illiquid products) to remain un-margined and contribute to overall risk in the financial system.

Conclusion

CME Group reiterates that we remain largely in support of the international principles outlined by the BCBS & IOSCO for margin requirements for non-centrally cleared derivatives and their implementation in a manner consistent with the G-20 policy goals supporting the use of central clearing to mitigate risk. However, as outlined above in our responses, we have identified several key aspects in the definitions of the initial margin model calibrations that could lead to incentives for market participants to remain in the riskier non-cleared derivatives markets. We believe that due to the policy goals of the G-20 and the inherent riskiness of the bespoke, non-cleared market that these derivatives should be subject to enhanced margin standards. These standards should include, at a minimum, initial margin calibration for non-cleared derivatives with similar standards, outside of 5 versus 10 day MPOR, to those that are utilized in the centrally cleared marketplace. We ask the Agencies to more closely align their calibrations with the requirements for CCP's to prevent regulatory arbitrage and incentivize market participants to utilize the risk management benefits of central clearing where available.

CME Group

We would be happy to further discuss and clarify any of the above issues with the Agencies. If you have any comments or questions regarding this submission, please feel free to contact Sunil Cutinho, President, CME Clearing at (312) 634-1592 or Sunil.Cutinho@cmegroup.com.

Sincerely,

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