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August 5th, 2016

VIA ELECTRONIC SUBMISSION

Office of the Comptroller of the Currency, Department of the Treasury
[12 CFR Part 50] [Docket ID OCC-2014-0029] [RIN 1557-AD97]
Regs.comments@occ.treas.gov

Board of Governors of the Federal Reserve System
[12 CFR Part 249] [Regulation WW; Docket No. R-1537] [RIN 7100-AE 51]
Regs.comments@federalreserve.gov

Federal Deposit Insurance Corporation
[12 CFR Part 329] [RIN 3064-AE 44]
Comments@fdic.gov

Re: Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements; Proposed Rule

Dear Sir/Madam:

CME Group Inc. ("CME Group")[1] is the parent of the Chicago Mercantile Exchange Inc. ("CME"). CME is registered with the Commodity Futures Trading Commission ("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 and options on futures contracts, as well as over-the-counter ("OTC") derivatives transactions, including interest rate swaps ("IRS") and credit default swaps ("CDS"). On July 18, 2012, the Financial Stability Oversight Council designated CME as a systemically important financial market utility ("designated FMU") under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

CME would like to express its appreciation to the Office of the Comptroller of the Currency, Department of the Treasury, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation, together the "agencies", for the opportunity to comment on the proposed rulemaking: Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements ("the proposed rules"). CME is supportive of the goals of the proposed rules, and that of the underlying rules, the Basel III: the net stable funding ratio[2] ("NSFR") rules, which strive to promote improvements in the measurement and management of liquidity risk at the covered companies subject to the proposed rules.

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[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"). CME is also designated as a systemically important financial market utility under Title VIII of the Dodd-Frank Act.

[2] Basel Committee on Banking Supervision: Basel III: the net stable funding ratio (October 2014); http://www.bis.org/bcbs/publ/d295.pdf

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CME comments will be focused on two primary areas, and pertain primarily to Questions 39 – 42 in the proposed rules.

Customer Cleared Derivative Transactions

> Question 39: Under what circumstances, if any, should the asset or liability values of a covered company's customer's cleared derivative transactions be included in the calculation of a covered company's NSFR derivatives asset amount or NSFR derivatives liability amount?
>
> Question 40: Other than in connection with a default by a covered company's customer, under what circumstances, if any, would the value of a cleared derivative transaction that the covered company, acting as agent, has submitted to a CCP on behalf of the covered company's customer, appear on a covered company's balance sheet? If there are such circumstances, should these derivative assets or liabilities be excluded from a covered company's calculation of its derivatives RSF amount under § __.107 of the proposed rule, and why?

CME appreciates that in regards to customer cleared derivatives transactions where covered companies are acting in an agency capacity, the proposed rules have appeared to appropriately reflect the central clearing market structure. Where the covered companies under the proposed rules are CCP clearing members and are acting in an agent capacity for their customers, those resulting derivatives assets and liabilities are not those of the covered company, and therefore should not be additive to the required stable funding ("RSF") of the covered company. The proposed rules, quite appropriately, make this clear for both the initial margin deposit and variation margin payment that the covered company's customer may provide to the covered company.[3]

Additionally, the proposed rules appear to be consistent with initial Basel III rules and also the more recent Basel III NSFR frequently asked questions ("FAQ")[4] regarding customer cleared derivatives:

> *10. Under which conditions should the exemption found in footnote 18 apply to initial margin in the NSFR standard?*
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> *Answer: Footnote 18 specifies the conditions allowing for an exemption of the 85% RSF factor for initial margin posted by a bank on behalf of a customer. This refers to the cases in which the bank provides a customer access to a third party (eg a CCP) for the purpose of clearing derivatives, where the transactions are executed in the name of the customer, and the bank does not guarantee the performance of this third party.*

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[3] Customer initial margin and variation margin are utilized to meet customer obligations to the CCP clearing the exposures. So while the covered company may receive the initial margin and variation margin from its customers, the majority of initial margin and the entire variation margin are passed through to the CCP.

[4] Basel Committee on Banking Supervision Basel III – The Net Stable Funding Ratio: frequently asked questions (July 2016); http://www.bis.org/bcbs/publ/d375.pdf

CME supports the agency central clearing framework, which serves as the basis for the exemption in the proposed rules, and also which appears to be the guiding principle in the recent Basel FAQ. In CME's markets, direct clearing members, who would be covered companies under the proposed rules, bring their customer orders to our markets as separately identified and segregated from those associated with their own proprietary accounts. CFTC regulations strictly require the separation of customer positions and property from that of the direct clearing members' own positions and property as required by the Commodity Exchange Act and adopted in CFTC Regulation 1.20 and Part 22 of the CFTC Regulations. CME's interpretation of the proposed rules exemption is that this would appropriately allow the CFTC regulated central clearing market structure to allow for the exemption of all customer cleared derivatives exposures from a covered company's required stable funding, except in the case where the covered company is required to bring the customer's positions and property onto the covered company's balance sheet as prepared under the US Generally Accepted Accounting Principles ("GAAP"). CME's understanding is that a customer's positions and property would only be brought onto the covered company's GAAP balance sheet in the event of that customer's default, and therefore believes the exemption allows all non-defaulted cleared derivatives customers to be exempted from the covered company's requirements where appropriate.

Assets Contributed to a CCP's Mutualized Loss Sharing Arrangement and Initial Margin

> Question 41: What other RSF factor, if any, would be more appropriate for initial margin and assets contributed to a mutualized loss sharing arrangement? For example, would it be more appropriate to apply a 100 percent RSF factor, based on an assumption that a covered company would generally maintain its derivatives activities at current levels, such that the covered company should be required to fully support these obligations with stable funding?
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> Question 42: Should assets contributed by a covered company to a CCP's mutualized loss sharing arrangement be treated differently than initial margin provided by a covered company? If so, how should these assets be treated and why?

Recently in the Basel NSFR FAQ, the committee finalized their recommended RSF factor at 85% for both the initial margin and default fund contributions at a CCP:

> *8. What is the outcome of the Basel Committee's work to evaluate the treatment of margining in the NSFR described in Section 42(a)?*
>
> *Answer: The analysis conducted by the Basel Committee to evaluate the treatment of margining in the NSFR has determined that the current treatment of 85% stable funding requirement will be maintained. Section 42(a) of the NSFR standard is therefore revised to read as follows:*
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> *"cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a central counterparty (CCP). Where securities or other assets posted as initial margin for derivative contracts would otherwise receive a higher RSF factor, they should retain that higher factor."*

CME notes that in regards to the assets contributed to a CCP's mutualized loss sharing arrangement, the proposed rules assign an 85% RSF factor, and the same 85% RSF factor is applied to initial margin

deposits provided to the CCP by a covered company. The proposed rules are therefore consistent with the recommended Basel III NSFR rule, however, CME believes that initial margin posted to a CCP is distinct from that of non-centrally cleared derivatives initial margin given that CCP's clear liquid products, which would provide more readily available access to the contributed initial margin deposits should the covered company seek to exit their positions and realize a subsequent return of the initial margin deposits. Additionally, CME believes that CCP initial margin and CCP default fund deposits have starkly different purposes and usage profiles, and therefore warrant distinction in the final version of the proposed rules.

CCP Initial Margin

Proprietary initial margin deposits placed at a CCP by a covered counterparty are deposited in order to secure the positions that the covered company has with the CCP. CCP's clear liquid and standardized products which allow for transparency of market depth and liquidity in a particular product. The proposed rules, as well as the Basel III version of the rules, do not differentiate between initial margin posted for non-centrally cleared derivatives and centrally cleared derivatives. Centrally cleared derivatives turnover much more frequently than bespoke non-centrally cleared derivatives due to their standardized nature, this is recognized by the CFTC and is why exchange traded derivatives are margined based on a one-day liquidation period and centrally cleared swaps on a five-day liquidation period. This is a fact that is also recognized by the agencies in their own prudential regulations, such as the "Margin and Capital Requirements for Covered Swap Entities"[5]. CME believes that because of the liquid and standardized nature of CCP cleared products, covered companies under the rules could easily reduce their derivatives activities within a six-month time horizon, and subsequently realize the return of any initial margin deposits they have placed at the CCP.

Given this, CME recommends that the agencies apply a lower RSF factor for CCP initial margin deposits, and, at a minimum, align the RSF at 50%, similar to that of the secured lending transactions to a financial sector entity that matures in six months or more, but less than one year. Once the covered company receives the returned CCP initial margin deposits, they would then apply the applicable RSF to those assets. Various metrics can be used to confirm the ability to liquidate these cleared contracts within an abbreviated timeframe including average daily volume, liquidation period utilized for determining a products margin requirement, the availability of a central limit order book, and the objective nature of the CCP in the market. By way of example, CME publishes daily trading volumes and open interest which allows for market participants and regulators to monitor the depth and liquidity in our markets, and also conducts twice daily settlement cycles for our exchange traded products and once daily settlement cycles for our cleared swaps which allows for essentially the daily return of CCP initial margin deposits to the covered companies under the proposed rules. CME believes that these factors highlight how CCP initial margin is distinct from than that of non-cleared initial margin deposits, and therefore deserving of a lower RSF in the final rules.

CCP Mutualized Loss Sharing Arrangement

A covered company's CCP mutualized default resources are utilized only in the incredibly rare instance of a clearing member default, and only after the defaulting clearing member's resources and also the

[5] Federal Register Vol. 80 No. 229, November 30, 2015. Margin and Capital Requirements for Covered Swap Entities; Final Rule.

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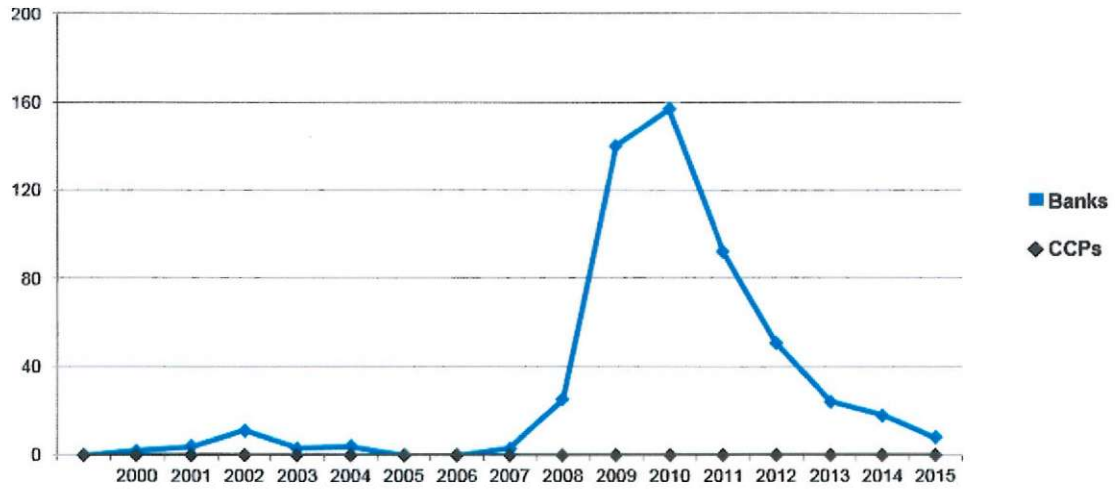
CCP's first loss contributions to the mutualized default resources have been exhausted. In contrast, a covered company's CCP margin deposits, which are never at risk of mutualization, can change on a daily basis depending on if the covered company enters or exits positions. Plainly speaking, the two resources contributed by a clearing member who would be a covered company under the proposed rules serve vastly different purposes, and therefore the required stable funding for each resource warrants distinction.

At CME, deposits for our mutualized default resources are typically done in cash or US Treasuries[6], and the utilization risk of the deposits are extremely low as evidenced in the below history of CCP mutualized default resource utilization over the past decade. If the agencies choose to not accept a lower RSF for CCP initial margin deposits, CME recommends, at a minimum, the RSF for CCP mutualized default resources should be reduced to the 50% category to place it alongside the "Operational Deposits Held at Financial Sector Entities" category, therefore recognizing the low probability of usage of these funds by the CCP. These mutualized resources deposited by a covered company at a CCP tend to exhibit low variability in size over time and are redeemable within a three month time horizon. CME could argue further that the entire required stable funding requirements for CCP mutualized default resources should be allowed to look through the CCP commitment and to the underlying deposits given the extremely low utilization risk of the deposits. CME is therefore, at a minimum, seeking a middle ground between 100% and 0% required stable funding, and aligning it with that of other operational deposits.

Bank Failures & CCP Mutualized Resource Utilization Through a Cycle



*As reported by the FDIC

[6] CME publishes Quarterly CPMI-IOSCO Quantitative Disclosures where the agencies can view the collateral types CME is holding for our mutualized resources; available at: http://www.cmegroup.com/clearing/cpmi-iosco-reporting.html

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CME would be happy to provide the agencies with any data behind our methodology for calculating a clearing member's pre-funded CCP mutualized resource requirements if it would help assist the agencies in determining a more appropriate level of required stable funding for these deposits at a CCP.

Conclusion

In conclusion, the liquidity risk management standards that the agencies implement will have direct impacts on the liquid and transparent centrally cleared derivatives markets we serve. CME provided comments to the first of the agencies' new liquidity risk management standards, the Liquidity Coverage Ratio (LCR), in January 2014 and is happy to provide them for this second and equally important liquidity risk management standard. The agencies' liquidity risk management rules, which impact covered companies who are direct clearing members of our CCP clearing services, have direct and observable impacts on the derivatives markets we serve.

As an example, CME highlighted in our 2014 comments that the LCR rules inappropriately categorized commitments to CCP facilities as requiring a 100% drawdown assumption which is in stark contrast to the typical usage rates for those facilities since they act purely as supplements to a CCP's robust liquidity resources. The agencies jointly responded without any changes in the final rulemakings, and as a result, CME and other CCP's have experienced a severe constraint in access to these facilities. CCP's are required to maintain liquid resources to support their settlement and payment obligations, and historically commitments from covered companies subject to the LCR were a key portion of the liquid resources that a CCP would maintain. These would be commitments often done through syndication across a consortium of covered companies subject to the LCR, a structure which would act to ensure a broad participation of lenders and therefore provide additional diversification to the commitments. Today, in a post LCR environment, CCP's are now required to actively solicit alternative forms of liquid resources in order to replace these rapidly diminishing facilities, looking to non-traditional lenders and entities not typically subject to the agencies' regulation. This is just one example of the agencies' liquidity rules having direct and observable impacts on our markets, and therefore we ask the agencies to carefully consider the consequences and incentives that their proposed rules will have on the centrally cleared markets.

CME 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 +1 312 634-1592 or Sunil.Cutinho@cmegroup.com.

Sincerely,

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