

July 27, 2007

Via E-mail and Express Mail

Eileen Donovan, Acting Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: China Foreign Exchange Trade System and National Interbank Funding Center

Dear Acting Secretary Donovan:

Chicago Mercantile Exchange Inc. ("CME"), on behalf of its business partner, the China Foreign Exchange Trade System and National Interbank Funding Center ("CFETS"), respectfully requests that the Commodity Futures Trading Commission ("CFTC" or "Commission") authorize certain exemptive relief under section 4(c) of the Commodity Exchange Act ("CEA"). Specifically, we request that CFETS and/or its members participating in the super-clearing arrangement with CME be exempted from any requirement to register as futures commission merchants ("FCM") pursuant to Section 4d of the CEA as amended. Previous correspondence with the Commission is withdrawn and replaced by this letter.

CFETS

CFETS, also known as the National Interbank Funding Center in China, is an affiliate to the People's Bank of China ("PBC"). (See attached PBC Side Letter). CFETS has 272 members, including all of the major Chinese banks, engaged in foreign exchange trading. CFETS members, other than banks, include insurance and securities companies, fund management companies and foreign financial institutions. CFETS is currently unable to establish a subsidiary in the United States in light of its existing business environment.

CFETS, set up by PBC in 1994, operates an electronic trading system with respect to trading in the interbank foreign exchange market, Renminbi ("RMB") lending and bond market in China, which, pursuant to the Law of the People's Republic of China on the People's Bank of China, is supervised and regulated by the PBC. The foreign currency pairs traded against the RMB through CFETS include the U.S. dollar, Japanese yen, Euro and Hong Kong dollar and CFETS provides trading services for foreign exchange spot, forwards and swaps. In addition, CFETS also operates China's Interbank RMB money market and facilitates the trading of government securities and repo transactions.

CFETS Super-Clearing Arrangement

Pursuant to an Agreement between CME and CFETS, CFETS will become a super-clearing member of CME authorized to clear foreign currency and interest rate futures transactions on behalf of CFETS members and their customers domiciled in China. Foreign financial institutions and other CFETS members not domiciled in China will not be permitted to clear CME contracts through CFETS under the Agreement. (See attached Agreement for Order-Routing and Super-Clearing, hereinafter referred to the "Agreement"). CME, after providing notice to CFETS, and operating under its usual commercial standards, shall have the unilateral right, if it reasonably concludes that a CFETS member or proposed CFETS member presents an undue risk of default, to require that CFETS: i) prohibit such CFETS member's access to trading Designated Futures Contracts on Globex, or ii) prohibit a proposed CFETS member access to trading Designated Futures Contracts on Globex.

CME has received an opinion from CFETS' outside counsel confirming that CFETS has the ability to execute, enter into, and be bound by a legally enforceable contract with CME under the laws of the Peoples' Republic of China. (See attached opinion of King & Wood PRC Lawyers). The Agreement and the legal relationship of CME and CFETS will be governed by the laws of the U.S.

CFETS will connect to CME via an iLink API for order routing. CFETS members, made up of financial institutions and other entities located in the Peoples' Republic of China, will submit proprietary and customer orders through CFETS to CME. CME will provide technical cooperation and assistance to CFETS with respect to CFETS trading activity in accordance with the Agreement.

Financial Requirements

CFETS will comply with CME's clearing member financial requirements. CFETS will satisfy CME's security deposit requirement which is currently a minimum of \$500,000. In addition, CFETS will maintain surrogate capital of 8% of aggregate required customer performance bond but not less than \$10 million. All surrogate capital shall be in the form of US Dollar cash or Treasury securities (subject to CFTC Regulation 1.17 haircuts) in a CME controlled account in the United States.

CFETS will guarantee all trades, which result from orders that are transmitted by means of the CFETS connection, to CME by CFETS members. All settlement variation and performance bond payments to CME will be made through a CME-approved settlement bank that is domiciled in the United States. CFETS will comply with the rules of CME that apply to super clearing members and clearing members, as applicable, except to the extent that the requirements of the CME rules are modified by the Agreement. Specifically, rules related to capital requirements and to open outcry trading are not applicable.

CME shall provide the CFTC with a monthly report detailing the surrogate capital amounts and calculation. This report may be posted on the CFTC web site with other FCM reports. CME shall provide next day notice to the CFTC if: (i) CFETS' capital falls below 110% of requirements, or (ii) if a customer margin call exceeds excess capital on deposit. Accordingly, CFETS shall deposit into a CME controlled account \$11 million in surrogate capital. Further, CME shall provide immediate notice to the CFTC of any capital deficiency.

CME and CFETS shall provide to the CFTC all large trader information at the same time and in the same format as other FCMs. CME and CFETS shall each act as agent for service of process purposes regarding trading on CME with respect to both CFETS members and customers of CFETS members.

Where CME has a need for information that CFETS can provide, for purposes of fulfilling its market surveillance and regulatory responsibilities or to satisfy an inquiry or request from the CFTC or any other governmental agency with authority over the business of CME, CFETS will use its best efforts to obtain the information and provide it to CME and/or to the CFTC or other governmental agency, as applicable. The information that may be requested by CME pursuant to this provision includes but is not limited to (i) information relating to the ownership or control of any CFETS member or customer of a CFETS member, (ii) information relating to the trading activities of or positions taken by any CFETS member, customer of CFETS member or other person with ownership or control over a CFETS member with respect to financial instruments or spot currencies. Information provided by CFETS pursuant to this provision shall be kept confidential and shall be used by CME only for appropriate market surveillance or regulatory responsibilities.

CFETS shall collect at least the CME required minimum performance bond amounts from its members in respect of trading activity by such CFETS members and their customers. The minimum performance bond requirement for each CFETS member will be calculated on a net basis within each account. CFETS will then deliver to CME, at a minimum, the net performance bond requirement of all accounts of CFETS members. In other words, minimum margin requirements with respect to off-setting positions owned by the same legal entity will be calculated on a net basis within the account of each CFETS member (sub-account to CFETS as a Super-Clearing member). Positions that are not owned by the same legal entity may not be margined on a net basis.

Because CFETS will not be considered an FCM, any positions held will be considered non-regulated futures and therefore, will be held in the house origin at the Clearing House. Nonetheless, CME will require CFETS to prepare daily quasi-segregation computations to mirror segregation requirements with the collateral in the house origin satisfying those requirements.

Given CFETS' status as a non-profit affiliate to the PBC and not an entity that is wholly separately capitalized, CFETS itself will not be in a position to provide net capital information to CME. Therefore, CFETS cannot meet the requirements that would apply if it were required to register as an FCM. CME has, however, received a letter from the PBC confirming CFETS status as an affiliate to the PBC. Additionally, if CFETS becomes incorporated under the Company Law of People's Republic of China, CFETS will then be required to independently satisfy its net capital requirements to CME.

Risk Management

CME will integrate CFETS as a clearing member firm that will be subject to at least the same prudent risk management policies and procedures that are required from existing CME clearing members. CFETS and its members will be subject to daily mark-to-market and margining of their CME positions. CME will also have real-time position and price information on CFETS

activity that will be captured by CME risk systems to monitor exposures throughout the trading day at both the CFETS super-clearing level and the individual CFETS member level. The CME large trader application will allow CME to track customer level positions at each CFETS member by using real-time prices to calculate exposures at each large trader customer account level. These risk systems will also be employed to reflect particular product concentrations of positions as well as subjecting all CFETS members and large trader accounts to a series of daily stress tests to calculate potential exposures.

As a super clearing member, CFETS will follow CME operational policies and procedures with respect to clearing operations. CME, after providing notice to CFETS, and exercising its usual commercial standards, shall have the unilateral right, if it reasonably concludes that a CFETS member or proposed CFETS member presents an undue risk of default, to require that CFETS prohibit such CFETS member's access to trading Designated Futures Contracts on Globex or prohibit a proposed CFETS member access to trading Designated Futures Contracts on Globex. CME will also use its ability to view certain accounts through its Account Monitoring System that will show any large intra-day exposures at the individual customer level based on trading activity for that particular day. Those accounts can also be analyzed on an ad hoc basis over a varying array of different price volatility, or time points through the CME's SPAN[®] program to view potential exposures to the market at the most granular level.

As each CFETS member begins trading CME products, CME will utilize a daily report that tracks a variety of information on CFETS activity. In addition, CFETS Risk Management Department will consistently review the credit ratings and risks of its members.

CME and CFETS will maintain records in English, in the United States, sufficient to allow the CFTC to confirm compliance with any proposed CFTC Order regarding CFETS. Such records will be made available to the CFTC within 72 hours of a request. In addition, CME and CFETS will comply with any applicable United States anti-money laundering requirements as determined by the United States Treasury Department. Further, CME and CFETS will be jointly and severally liable in any CFTC enforcement action brought by the CFTC for non-compliance with the Order or that is otherwise related to the relief requested.

Registration Issue

Section 4d(a) of the CEA provides in part that, "It shall be unlawful for any person to engage as a futures commission merchant or introducing broker in soliciting orders or accepting orders for the purchase or sale of any commodity for future delivery, on or subject to the rules of any contract market or derivatives transaction execution facility..." In addition, Section 1.3(p) of the CFTC Regulations defines a futures commission merchant as:

"Individuals, associations, partnerships, corporations, and trusts engaged in soliciting or in accepting orders for the purchase or sale of any commodity for future delivery on or subject to the rules of any contract market and that, in or in connection with such solicitation or acceptance of orders, accepts any money, securities, or property (or extends credit in lieu thereof) to margin, guarantee or secure

any trades or contracts that result or may result therefrom; and ...”

CME and CFETS seek an exemption from FCM registration status for CFETS and its members pursuant to CEA Section 4(c). CME and CFETS believe that an exemption is appropriate given CFETS’ status as an affiliate to the PBC and given the contractual commitments that CFETS has made to CME. The contractual commitments that CFETS has made to CME are the equivalent of an arrangement between a foreign broker and a U.S. FCM that allow the foreign broker to operate on behalf of foreign customers without CFTC registration. For example, among the protections set forth in the Agreement, CME, after providing notice to CFETS, and exercising its usual commercial standards, shall have the unilateral right, if it reasonably concludes that a CFETS member or proposed CFETS member presents an undue risk of default, to require that CFETS prohibit such CFETS member’s access to trading Designated Futures Contracts on Globex or prohibit a proposed CFETS member access to trading Designated Futures Contracts on Globex, CFETS has agreed to comply with CME’s general clearing member financial requirement as stipulated in the Agreement (see attached Agreement), CFETS has agreed to meet CME’s minimum performance bond requirements and CFETS has agreed to satisfy CME’s risk management policies and procedures. Further, all of the customers trading through CFETS will be non-U.S. customers.

Investor confidence is crucial to the success of the futures markets and the best way to gain investor confidence is to ensure that the highest levels of integrity are demanded of all market participants and intermediaries. In order to maintain a high level of integrity in the industry, individuals and entities are required to register with the National Futures Association to screen an applicant’s fitness to engage in business as a futures professional. An applicant’s fitness consists of having the appropriate financial wherewithal to act as a futures professional as well as having the requisite integrity and reputational background that will instill investor confidence in the individual or entity.

CFETS satisfies the fitness tests that an industry participant is required to meet. CFETS is a division of the PBC. CFETS has provided CME with a side letter from the PBC that verifies that CFETS is a non-profit affiliate to the PBC. In addition, the Chinese government is seeking to expand its role in the world as a major financial power. From a reputational perspective, this arrangement is very important to CFETS and the PBC and they have demonstrated a very strong commitment to the success of the project.

Conclusion

CME and CFETS believe that it would be in the public interest and consistent with the CEA for the Commission to provide the exemptive relief requested. On June 8, 2004, as a precursor, to the Agreement, CME and CFETS executed a Memorandum of Understanding (“MOU”). At that time, Treasury Secretary Snow stated that “this cooperative initiative is an outstanding example of the kinds of exchange-rate-related technical cooperation efforts Treasury has consistently advocated as part of our on-going technical cooperation program with China’s financial sector and financial regulators.” The MOU and the Agreement represent a commitment by China to strengthen its financial system and to become more integrated into the world capital markets. Further, the technological cooperation between CME, CFETS and other third parties,

necessitated by the arrangement, will provide benefits to other entities that transact business in China.

CME and CFETS will file a report with the CFTC providing statistics and analyzing issues within 18 months of the issuance of any CFTC Order regarding CFETS.

Please contact us with any questions or comments you may have regarding this letter.

Very truly yours,



Chicago Mercantile Exchange Inc.

cc: Honorable Acting Chairman Lukken
Honorable Commissioner Dunn
Mr. Ananda Radhakrishnan