07-13
(7)

RECEIVED
C.F.T.C.

2008 JAN -3 PM 4:29

OFC. OF THE SECRETARIAT

CME Group
A CME/Chicago Board of Trade Company

Craig S. Donohue
Chief Executive Officer

January 3, 2008

Acting Chairman Walter Lukken
Commissioner Michael Dunn
Commissioner Jill E. Sommers
Commissioner Bart Chilton
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

RECEIVED
C.F.T.C.
2008 JAN -3 PM 5:30
RECORDS SECTION

Dear Commissioners:

On December 27, 2007, CME Group provided you with a letter that detailed inaccuracies in certain business-related and competitive facts contained in a Future Industry Association's (FIA) comment letter. The FIA comment letter is in opposition to the China Foreign Exchange Trading System and National Interbank Funding Center's (CFETS) request for an exemption from FCM registration under section 4(c) of the Commodity Exchange Act (Act). CME Group would like to supplement that December 27 letter with additional information that is relevant to the exemption request.

FIA's comment letter states that providing the requested exemption to CFETS would create an alleged un-level playing field between CFETS and its members on the one hand and FIA's FCM members on the other hand. Again, an examination of the actual business-related and competitive facts demonstrates that the claims of the FIA and its members that the requested exemption and the Order-Routing and Super-Clearing Agreement (Agreement) would disadvantage U.S. firms seeking to access the Chinese market for agency brokerage or proprietary trading activity involving Chinese banks are unfounded. In fact, several large broker dealer-FCM entities have already taken significant steps to increase their active involvement in brokerage and trading activity with Chinese banks.

The Chinese government recently released the latest version of its Catalogue of Industries for Guiding Foreign Investment (Catalogue).[1] The Catalogue details the percentage ownership foreign companies are allowed to invest in Chinese companies such as futures, insurance and securities companies. With respect to futures brokerage companies in China, foreign companies are able to obtain up to a forty-nine percent stake in a Chinese futures brokerage company.

Large broker dealer-FCMs who have already elected to take stakes in Chinese futures brokerage companies include Calyon Financial Hong Kong Ltd. (Calyon Financial), J.P. Morgan Chase & Co. (J.P. Morgan) and ABN AMRO Holdings NV (ABN AMRO).

---

[1] Catalogue of Industries for Guiding Foreign Investment (2007 Revision) of the PRC (16 Nov 2007).

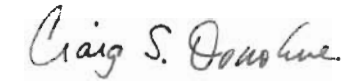
In March 2007, Calyon Financial and CITIC East China signed a joint venture agreement forming a new futures brokerage entity in Shanghai. The joint venture is on schedule to become the first futures brokerage in Shanghai and the second futures brokerage in China that is jointly owned by a Chinese firm and a Hong Kong brokerage firm.[2]

In addition, as CME Group has previously informed you, J.P. Morgan has received Chinese governmental approval for its joint venture with a Chinese futures-brokerage firm.[3] The press coverage states that, "the U.S.-based bank's venture comes as international investment banks are scouring China for joint-venture partners to take advantage of growing global interest in the country's exchanges. The partnership with Zhongshan Futures Co. a futures brokerage based in southern Guangdong province, gives J.P. Morgan the ability to trade on China's commodities exchanges, which feed China's huge and growing appetite for commodities and influence prices on global markets."[4]

Finally, in May 2006, ABN AMRO entered into a joint venture with China Galaxy Securities Co. whereby ABN AMRO holds a forty percent stake in Galaxy Securities. Although progress on this relationship has been slowed as a result of ABN's sale of its global futures business to UBS AG, UBS has indicated its continued support for the joint venture with Galaxy Securities.

CME Group reiterates its position that the exemption from FCM registration requested by CFETS pursuant to section 4(c) of the Act will not disadvantage the futures industry but will actually assist FIA members and their parent companies as the markets in China continue to expand and open up to the global marketplace. As the examples above show, non-Chinese broker dealer-FCMs are already accessing the Chinese markets. We therefore request a timely approval of the petition for exemption and authorization to implement our Agreement in an expedited fashion.

Sincerely,



Craig S. Donohue

cc: Ananda Radhakrishnan
Jacqueline Hamra Mesa

---

[2] "The joint venture will combine the access and experience of CITIC Futures in the Chinese markets with Calyon Financial, a proven leader in the global futures brokerage industry. One of the primary reasons we selected Calyon Financial for this partnership is the company's proven system of internal risk controls and its IT systems" said Mr. Lou, Heng, Chairman of CITIC Futures. Press Release from Calyon Financial and CITIC Futures (March 26, 2007).

[3] Correspondence to David Stawick (CFTC) from John Davidson (CME Group), page 3 (October 23, 2007).

[4] Toehold in China Futures, Dow Jones Newswire, Rick Carew (September 26, 2007).