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CHICAGO MERCANTILE EXCHANGE

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December 23, 1999

Ms. Lois J. Gregory
Division of Trading & Markets
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Cross-Margining Program among CME/LCH/LIFFE

Dear Lois:

Attached for your review and approval are a number of documents that comprise the Chicago Mercantile Exchange's ("CME") submission of a Cross-Margining Program ("Program") with London Clearing House ("LCH") and London International Futures and Options Exchange ("LIFFE"). The documents include the Cross-Margining Agreement ("Agreement") with appendices (including clearing member agreements), answers to questions you previously posed regarding amendments to CME rules 802 and 830, and the opinion of outside counsel as to the enforceability of various bankruptcy provisions contained in the Agreement. The CME is seeking approval of this submission within forty-five days of this letter.

CME clearing members that are also both LCH members and LIFFE clearing members or have affiliates that are both LCH members and LIFFE clearing members would be able to trade certain contracts at LIFFE, and participating LCH members and LIFFE clearing members would in turn be able to trade certain contracts at the CME. Such trading would be limited initially to proprietary trading. Unlike cross-margining with the Options Clearing Corporation ("OCC"), the performance bond and positions of participating clearing members would be held in separate accounts by the CME Clearing House and LCH. The performance bond and positions will not be held in a joint account. To protect each clearing organization from suffering losses from a default in connection with such cross-margin trading by a clearing member of the other clearing organization, the CME Clearing House and the LCH would provide each other with "cross-guaranties" in the amount of the applicable margin reduction. For example, the CME would guaranty payment of any net unpaid margin amounts owed by CME clearing members to the LCH, and the LCH would give the CME a similar cross-guaranty as to any net unpaid margin amounts owed by LIFFE clearing members to the CME. As part of this arrangement, each participating clearing member agrees that all of its positions, margin deposits, and other property in the possession or control of the CME would be subject to a security interest as set forth in the CME Rules and in the Cross-Margining Agreement. Once a guaranty payment is made, the clearing organization making the payment would be subrogated to the other clearing organization's claim against the defaulting clearing member and have a claim for reimbursement of the guaranty payment form that clearing member. Guaranty payments will be capped pursuant to the terms of the Agreement.

This Program is very similar to the cross-margining arrangement between the Government Securities Clearing Corporation and New York Board of Trade Clearing Corporation which was previously approved by the Commission. The Program contemplates that the parties may also be involved in other cross-margining agreements. As such, the parties have agreed that loss-sharing among the various cross-margining agreements must take place in an equitable fashion. Examples of how the loss-sharing will be calculated are attached as an appendix to the Agreement.

If you have any questions regarding the Program, feel free to contact me.

Very truly yours,

Stephen Szarmack

Stephen M. Szarmack

cc: Phupinder Gill
Kimberly Taylor

SMS:db1842.LTR