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RECORDS SECTION

March 7, 2005

VIA ELECTRONIC DELIVERY

Jean A. Webb
Secretary to the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

COMMENT

2005 MAR -4 PM 4:49

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Re: **Proposed Amendments to Rule 1.25; Investment of Customer Funds and Record of Investments**

Dear Ms. Webb:

The Chicago Mercantile Exchange Inc. ("CME" or "Exchange") welcomes the opportunity to comment upon the Commodity Futures Trading Commission's (the "Commission") proposed amendments to Commission Rule 1.25 (the "Rule"). CME is currently the largest futures exchange in the United States. As an international marketplace, CME brings together buyers and sellers on its CME GLOBEX[®] electronic trading platform and trading floors. CME offers futures and options on futures primarily in four product areas: interest rates, stock indexes, foreign exchange and commodities. CME is also the largest derivatives clearing organization in the world. In 2004, the CME Clearing House cleared more than 1,386 billion contracts, which represents 85% of all futures and options contracts traded on U.S. designated contract markets. While maintaining an average of \$40 billion of performance bond collateral, we move \$1.5 billion to \$3 billion in daily settlement variation payments among market participants. We believe that CME's substantial experience and leadership in clearing and risk management will benefit both the Commission and industry participants with respect to the proposed amendments.

Rule 1.25 sets forth the types of instruments in which futures commission merchants ("FCMs") and derivatives clearing organizations ("DCOs") are permitted to invest customer assets that are required to be segregated under the Commodity Exchange Act ("CEA"). The proposed amendments to Rule 1.25 would broaden the types of instruments that FCMs and DCOs could invest in customer segregated assets. Such new instruments would include instruments with embedded derivatives, variable rate securities, auction rate securities and reverse repos.

CME generally supports the notion that FCMs and DCOs should have broad authority to invest customer segregated funds, provided that the instruments in which the funds are invested are highly liquid and have low market and credit risk. In this respect, we note that the Bank of International Settlements' Recommendations for Central Counterparties ("CCP"), which set forth global standards for risk management of CCPs, provide that a "CCP should generally limit the acceptance of collateral to assets with high liquidity, low market risk and minimal credit risk, and establish procedures to assess the risks inherent in an asset before it is accepted as collateral." These safeguards are necessary to ensure the safety of customer segregated funds and the financial integrity of the futures industry.

In recognizing that the proposed amendments to Rule 1.25 portend to benefit FCMs that are seeking to increase the investment returns available to them in managing customer segregated assets,

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we further recognize that FCMs will have a strong incentive to pass those particular instruments on to the clearing organization as collateral. Indeed, given that CME clears approximately 85% of all futures and options contracts traded on the U.S. futures markets, and that the corresponding clearing level performance bond requirements are also approximately 85% of the total performance bond required in the U.S. futures markets, CME will likely be asked and expected to accept the broadened range of instruments. As the Commission and market participants are aware, CME has long recognized and been sensitive to collateral-related economics associated with doing business at CME. In this respect, CME has taken the lead in establishing many cutting-edge, low cost and operationally efficient collateral programs that are available to its clearing membership, including the Interest Earning Facility ("IEF"), IEF2, IEF3, IEF4, and IEF5 (which comprise our various money market and directed collateral programs), as well as broadening the types of acceptable collateral to include sovereign debt, foreign currencies, U.S. Government agency securities, mortgage backed securities and equities.

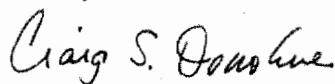
However, to the extent that new instruments are illiquid or pose operational or risk management challenges to the clearing organization—such as may be the case with certain securities with embedded derivatives, variable rate securities, auction rate securities and reverse repos—CME will be required to determine whether to accept these new types of collateral based upon various operational and risk measures. For example, if CME is to accept instruments with embedded derivatives or auction rate securities, CME will continue to exercise its discretion and judgment to design a program that accepts and values these instruments in a manner that CME believes will ensure the safety and soundness of the customers and firms that use our markets. In considering such programs, CME will continue its long-standing tradition of working closely with the FCM community to determine the appropriate types of collateral to accept.

Finally, we note that, because of the complexities associated with evaluating instruments containing embedded derivatives, it is important to be reasonably certain that all FCMs will have the robust tools and systems needed to understand the risks and implications of the collateral that they accept. While we appreciate the need for an auditability standard, without a complete understanding and robust tools, any auditability standard will become meaningless. Developing these systems could potentially represent a significant cost to smaller FCMs. In the absence of appropriate evaluation tools, however, CME questions the suitability of this type of investment for all FCMs.

Conclusion

If you have any questions or comments, please do not hesitate to contact me, Tim Doar, Managing Director, CME Clearing House, at (312) 930-3162, or Matthew F. Kluchenek, Director and Associate General Counsel, at (312) 338-2861.

Sincerely,



Craig S. Donohue