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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: Amendments to CME Rules 802 and 830

Dear Lois:

As you know, the Chicago Mercantile Exchange ("CME" or "Exchange") submitted to the Commodity Futures Trading Commission proposed changes to CME Rules 802 and 830 in anticipation of a cross-margining program between the CME, the London Clearing House ("LCH") and the London International Financial Futures and Options Exchange ("LIFFE"). You posed three questions with respect to the proposed changes to Rules 802 and 830. Responses to those questions are set forth below.

1. **What is the rationale for the deletion in Rule 830 of the sentence stating that the "Exchange will determine what positions will be eligible for cross-margining?" Isn't that a requirement that should remain in the rule?**

Response: Deletion of the sentence "The Exchange shall determine what positions will be eligible for cross-margining," was done for organizational and efficiency reasons. That particular provision was moved to the last sentence in Rule 830.B.3. As such, you are correct that the provision should remain in the rule, however, the provision was merely moved to a different section of the rule.

2. **New subsection E. in Rule 830 indicates how positions guaranteed in a cross-margining proposal would be liquidated and the proceeds would be shared. Is there anything in this provisions that would go beyond the GSCC-NYCC Cross-Margining Program, to your knowledge? In addition, the Commission anticipates that the CME will be submitting a comprehensive bankruptcy analysis regarding the cross-margining program as we discussed?**

Response: The proposed cross-margining agreement among the CME, LCH and LIFFE is patterned after the GSCC-NYCC cross-margining program. Therefore, to my knowledge, new subsection E. in Rule 830 which indicates how positions guaranteed in a cross-margining program would be liquidated and the proceeds shared, is generally consistent with the GSCC-NYCC model. The CME/LCH/LIFFE cross-margining program, however, involves more than one jurisdiction. In addition, you will find enclosed a bankruptcy analysis from our outside counsel, Freeman, Freeman & Salzman, regarding the CME/LCH/LIFFE cross-margining program.

3. **Please confirm that there is nothing in any of the cross-margining agreements among cross-margining participants that would need to be changed to accommodate the nomenclature changes to Rules 802 and 830.**

Response: There is nothing in the clearing member agreements that needs to be modified in order to accommodate the nomenclature changes proposed in Rule 802 and 830.

If you have any other questions regarding the amendments to Rules 802 and 830 or the cross-margining proposal itself, feel free to contact me.

Very truly yours,

Stephen Szarmack

Stephen M. Szarmack

cc: Phupinder Gill
Kimberly Taylor

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