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CHICAGO MERCANTILE EXCHANGE INC.

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July 29, 2003

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

COMMENT

Re: Proposed Amendments to CFTC Rule 1.25 (Investment of Customer Funds)

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 Rule 1.25 (the "Rule"). Although CME is generally in favor of the proposed amendments to Regulation 1.25, there are several specific comments and proposed revisions that the Exchange suggests in order to ensure that the amendments are flexible and useful to industry participants.

Specifically, with respect to the revisions concerning "Time-to-Maturity Requirements for Certain Collateral" (Rule 1.25(b)(5)), the *Federal Register* release states that certain instruments may be treated as if they have a time-to-maturity of one day, provided that certain terms and conditions are satisfied. Among those terms and conditions are the requirements that the instrument be used for the purpose of meeting concentration margin or other similar charges that are in addition to the basic margin requirements established by the derivatives clearing organization ("DCO"). Moreover, the DCO is required under the regulation to price the instrument each day based on a current mark-to-market value and the DCO must haircut the instrument by at least two percent.

CME requests the Commission to clarify that the proposed language would not restrict CME from applying assets in its Interest Earning Facility 3 Program ("IEF3 Program") to reserve and/or core performance bond requirements. CME performs its own conservative risk management and stress testing functions on a daily basis. As part of that process, CME works with clearing members and custodians to establish a prudent and flexible program that benefits market participants. By expanding the margin categories under the amended Rule, industry participants and DCOs will realize greater benefits. While the initial launch of the IEF3 Program will be limited to concentration performance bond requirements, CME believes that it is important to have the flexibility to expand the IEF3 Program to satisfy other classes of performance bond requirements.

In addition, CME plans to use third party custodians to price and haircut securities that qualify for the one day time-to-maturity benefit. Such custodians perform pricing and haircutting functions for securities on a daily basis and, at this time, are generally more experienced than many DCOs at performing such functions. CME would also like the ability to perform these functions in the future if it does obtain such expertise. Accordingly, CME suggests that the rule allow either a DCO or a qualified custodian to perform the pricing and haircutting functions requirement set forth in the regulation.

Thank you for the opportunity to comment upon the proposed amendments to the Rule. If you have any questions or comments, please do not hesitate to contact me, Tim Doar, Director, Financial Management, at (312) 930-3162, or Matthew Kluchenek, Director and Associate General Counsel, at (312) 338-2861.

Respectfully submitted,

James J. McNulty

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