CME Group

31 January, 2014

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Re: Notice of Proposed Rulemaking, Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring; Proposed Rule

CME Group Inc. ("CME Group") appreciates the opportunity to comment on the proposed rulemaking *Liquidity Coverage Ratio: Liquidity Risk Management, Standards, and Monitoring* ("Liquidity Coverage Ratio Proposal") by the Office of the Comptroller of the Currency ("OCC"), Department of the Treasury, Board of Governors of the Federal Reserve System ("Board"), and Federal Deposit Insurance Corporation ("FDIC") (collectively, the "Agencies") published in the Federal Register on November 29, 2013.

CME Group is the parent of Chicago Mercantile Exchange Inc. ("CME"). CME is registered with the CFTC as a derivatives clearing organization ("DCO") and is one of the largest central counterparty ("CCP") clearing services in the world. CME's clearing house division ("CME Clearing") offers clearing and settlement services for exchange-traded futures and options contracts, as well as over-the-counter ("OTC") derivatives transactions including interest rate swaps ("IRS") and credit default swaps ("CDS"). On July 18, 2012, the Financial Stability Oversight Council designated CME Inc. as a systemically important financial market utility ("designated FMU") under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

CME Group appreciates the Agencies' efforts to align its regulations with the Basel Committee on Banking Supervision ("BCBS") to promote an enhanced liquidity risk profile of internationally active banking organizations. We believe that the proposed regulation should be considered alongside the Principles for Financial Market Infrastructures ("PFMIs") published by the Committee on Payment and Settlement Systems and the Board of the International Organization of Securities Commissions ("CPSS-IOSCO"), as well as the CFTC Regulation Part 39 for systemically important DCOs ("SIDCOs").

CPSS-IOSCO PFMI 7: Liquidity Risk states, "for the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions."

Further, CFTC Regulation 39.33(c)(3) Qualifying liquidity resources states the resources that qualify as liquid include cash, committed lines of credit, committed repurchase agreements, committed foreign exchange swaps and highly marketable collateral, including high quality, liquid general obligations of a sovereign nation that are subject to prearranged and highly reliable funding arrangements.

At noted in more detail below in response to Question 42, CME Group believes that committed facilities provided by banks to CCPs should be separately defined in the final liquidity coverage ratio rules or, at a minimum, clearly included in the definition of credit facilities due to their usage characteristics and historical drawdown rates. In addition, we also seek confirmation that gold bullion meets the definition of HQLA Level 1 Liquid Assets under the Liquidity Coverage Ratio Proposal.

On average, CME Clearing maintains over $80 billion in collateral on deposit for its clearing members. CME Clearing's liquidity risk management framework has employed the utilization of a committed facility for over 20 years, which is currently sized at $7 billion through commitments by more than 20 banks and is expandable to $10 billion. Consistent with the G-20's commitment to central clearing, the implementation of the Dodd-Frank clearing mandate in 2013 resulted in a dramatic increase to the notional value of instruments being cleared at CCPs. We expect this to continue in the future as more products and jurisdictions are subject to clearing mandates, which will likely increase the need for CCPs to employ larger committed facilities to manage their liquidity framework and maintain prudent risk management standards. Therefore, it is critical that banks be incented to participate in CCP committed facilities.

I. Treatment of Unfunded Commitments to CCP Facilities

<u>Question 44 of the NPR requests comment on what additional factors should be considered in determining the treatment of unfunded commitments under the proposal and what additional distinctions between different types of unfunded commitments should the agencies consider, as well as how the definitions of credit facility and liquidity facility might be further clarified or distinguished.</u>

Pursuant to Section II (B) (2) (e),

- "A liquidity facility would be defined under the proposed rule as a legally binding agreement to extend funds at a future date to a counterparty that is made expressly for the purpose of refinancing the debt of the counterparty when it is unable to obtain a primary or anticipated source of funding. A liquidity facility would include an agreement to provide liquidity support to asset-backed commercial paper by lending to, or purchasing assets from, any structure, program, or conduit in the event that funds are required to repay maturing asset-backed commercial paper. Liquidity facilities would exclude general working capital facilities, such as revolving credit facilities for general corporate or working capital purposes."

- "A credit facility would be defined as a legally binding agreement to extend funds if requested at a future date, including a general working capital facility such as a revolving credit facility for general corporate or working capital purposes. Under the proposed rule, a credit facility would not include a facility extended expressly for the purpose of refinancing the debt of a counterparty that is otherwise unable to meet its obligations in the ordinary course of business."

The proposed definitions of liquidity facility and credit facility fail to account for committed facilities utilized by CCPs to supplement their liquid resources. The purpose of a committed facility for a CCP is more analogous to a credit facility. Both are designed to meet an entity's general operation needs (with CCP facilities generally being used more rarely) rather than to refinance the debt of the CCP when it is unable to obtain a primary or anticipated source of funding. Additionally, historical experience shows CCPs have seldom drawn on committed facilities, which supports, at a minimum, the lower outflow rate of 40 percent that is proposed to be applied for credit facilities that are provided to regulated financial companies. However, the more analogous arrangement is to that of facilities provided to depository institutions, depository institution holding companies, and foreign banks, which as noted in the Liquidity Coverage Ratio Proposal, have historically experienced lower drawdowns on committed facilities than other arrangements during periods of market stress. Due to the importance of committed facilities under PFMI 7, it is critically important that the likely drawdown rates are properly accounted for to avoid unnecessarily increasing the cost of these facilities for banks and, in turn, reducing the capacity provided to CCPs.

Below is a proposed definition of credit facility to reflect the inclusion of CCPs.

Credit facility means a legally binding agreement to extend funds if requested at a future date, including a general working capital facility such as a revolving credit facility for general corporate or working capital purposes and a qualified central counterparty facility for general operational purposes such as managing a clearing member unwind or a disruption of services by a depositary or payments system. Credit facilities do not include facilities extended expressly for the purpose of refinancing the debt of a counterparty that is otherwise unable to meet its obligations in the ordinary course of business (including through its usual sources of funding or other anticipated sources of funding).

We also note that the Basel III revised leverage ratio allows banks to use credit conversion factors (CCFs) when calculating exposures resulting from commitments to facilities. Pursuant to paragraph 15 of the Annex to the revised proposal, "Commitments other than securitisation liquidity facilities with an original maturity up to one year and commitments with an original maturity over one year will receive a CCF of 20% and 50%, respectively." We support this revision and believe it better reflects the operational realities of such committed facilities and more appropriately incents banks to participate in CCP committed facilities. We believe it would be prudent for the OCC, the Federal Reserve and the FDIC to take a similar approach in their leverage ratio and liquidity coverage ratio regulations.

We are greatly concerned that requiring a 100% drawdown rate for commitments to CCP facilities will further tighten the already constrained environment for CCPs to obtain committed facilities. Based on CME's analysis of the commercial availability of committed liquidity facilities, we believe it would be extremely difficult to obtain a facility in excess of $10 billion to help supplement its liquid resources if the costs incurred by banks for participating in CCP facilities significantly increases due to the application of a drawdown rate that fails to reflect the way CCPs utilize committed facilities and the de minimis level at which these facilities have been drawn upon historically.

II. Addition of Gold Bullion to Level 1 HQLA

<u>Question 10 of the NPR requests comment on what alternative factors should be considered in determining the assets that qualify as level 1 liquid assets and what additional assets should qualify as level 1 liquid assets based on the characteristics for HQLA that the agencies discussed.</u>

Pursuant to Section II. A., "Assets that would qualify as HQLA should be easily and immediately convertible into cash with little or no loss of value during a period of liquidity stress. In identifying the types of assets that would qualify as HQLA, the agencies considered the following categories of liquidity characteristics, which are generally consistent with those of the Basel III LCR: (a) Risk profile; (b) market-based characteristics; and (c) central bank eligibility."

The definition of HQLA level 1 liquid assets does not appear to include gold bullion. We believe gold bullion should qualify as a level 1 liquid asset due to its characteristics of low risk, highly liquid, flight to quality, active outright sale market, high trading volumes, diverse number of market participants. In addition, gold bullion serves as an international store of value and is central bank eligible.

Conclusion

CME reiterates our support of the Agencies' efforts to promote an enhanced liquidity risk profile of internationally active banking organizations consistent with the objectives of the Basel Committee on Banking Supervision ("BCBS").

CME would like to thank the Agencies for the opportunity to provide these comments. We would be happy to further discuss and clarify any of the above issues with agency staff. If you have any comments or questions regarding this submission, please feel free to contact Kim Taylor, President, by telephone at (312) 930-3156 or by e-mail at Kim.Taylor@cmegroup.com.

Sincerely,

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