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Board Members

Financial Stability Board

March 7, 2014

Dear Board Members

RE: Financial Stability Board consultation paper: "Feasibility study on approaches to aggregate OTC derivatives trade repository data"

CME Group Inc. (**CME Group**) would like to express its appreciation to the Financial Stability Board (the **FSB**) for the opportunity to comment on its consultative paper on approaches to aggregating over the counter (**OTC**) derivative trade repository (**TR**) data (the **Consultation Paper**). CME Group appreciates the FSB's efforts to increase transparency and market stability through aggregating OTC derivative TR data on a global basis and improving regulators' access to such data and CME Group agrees that such developments will assist regulators in monitoring and evaluating risk in the OTC derivatives market.

CME Group Inc. is the ultimate parent company of Chicago Mercantile Exchange Inc., an operator of a US Swap Data Repository (CME SDR) which provides repository services to market participants under the US Dodd-Frank Act. CME SDR is regulated and supervised by the CFTC. Within the EU, CME Group has established a further UK subsidiary, CME Trade Repository Limited (CME European Trade Repository or CME ETR) which is registered as a trade repository under EU Regulation No. 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR). CME ETR is authorized and supervised by ESMA.

CME SDR and CME ETR provide multi-asset class reporting solutions for a wide range of interest rate, credit, foreign exchange, commodities and equity derivatives. CME Group exchanges and clearing houses also offer a range of trading and clearing services to a global customer base across all major derivative asset classes.

CME Group has prepared its response in three sections to ensure that it has the flexibility to address all comments and concerns relating to the Consultation Paper whilst also providing the FSB with clearly delineated responses to the five questions raised in the Consultation Paper. The first section contains an executive summary of CME Group's response to the Consultation Paper, the second section contains the

general principles which CME Group believes the FSB should consider when finalizing its analysis of the models for aggregating OTC derivatives TR data, and the third section addresses each of the specific questions raised in the Consultation Paper in turn.

Section 1: Executive summary

CME Group supports the G20's commitment to increasing regulatory transparency in the derivatives market for the purpose of monitoring systemic risk and protecting against market abuse. We believe that this end goal can only be achieved through the establishment of complementary local reporting regimes which are capable of producing data that can be aggregated across different jurisdictions. Accordingly, CME Group is of the view that Option 3 of the Consultation Paper, under which it is proposed that raw data will be collected from local TR databases by individual regulatory authorities that will aggregate the data themselves within their own systems based on mutual memoranda of understanding between regulators, is the only viable model for aggregating TR data on a global basis.

Whilst CME Group supports the adoption of Option 3, this response document makes a number of observations about the process for implementation of this approach. In particular, CME Group believes that the completion of the steps set out below is an essential pre-condition to any program for aggregating TR data.

a) The creation and global adoption of harmonized data content standards

CME Group believes that widely accepted standards for data content must be globally agreed and implemented before Option 3, or any other model for aggregating TR data, can be implemented. This step is necessary in order to ensure that the data stored in local TRs is extracted into a standardized presentation so as to facilitate meaningful cross-jurisdictional aggregation. CME Group notes, however, that it will be important to preserve flexible standards for the format in which data is submitted to the TRs.

b) The creation and global adoption of harmonized regulatory access standards

CME Group believes that widely accepted standards for regulatory access must be globally agreed and implemented before Option 3, or any other model for aggregating TR data, can be implemented. This step will require authorities to work together to agree on the precise categories of data to be accessed from TRs.

In view of the significant global coordination and negotiation which will be required to complete the above two steps, CME Group is further of the view that the timing for the implementation of a program for aggregating TR data must allow sufficient, and considerable, time for the satisfaction of this pre-conditional stage. It is only when the above two steps have been completed that regulators will be in a position to share and aggregate the data they collect from local TRs.

Section 2: General comments

A key commitment made by the G20 at the 2009 Pittsburgh summit was to increase post-trade regulatory transparency for the purpose of more effectively monitoring systemic risk. Whilst local jurisdictions have acted on this commitment by establishing new trade reporting requirements under which key data are submitted to and stored by TRs, the cross-jurisdictional nature of the derivatives market, within which large market participants hold positions that cut across regulatory lines, means that systemic risk cannot be accurately measured within any particular jurisdiction. Instead, effective monitoring of this risk can only be accomplished where local regimes are closely coordinated to facilitate the aggregation of data stored in local TRs on a cross-jurisdictional basis. Should this process be neglected, or undertaken ineffectively, the task of monitoring systemic risk – that is, the very objective behind trade reporting – will be rendered unachievable.

We commend the FSB for issuing a very thoughtful and comprehensive consultation paper on this fundamental topic. In our view, the Consultation Paper effectively highlights the challenges associated with data aggregation. The discussion below sets out (a) the pre-conditions which CME Group believes must be satisfied before attempts are made by regulators to aggregate data on an organized (rather than purely informal) basis; and (b) CME Group's argument that the regulatory agency collection and sharing model, outlined under Option 3 of the Consultation Paper, is the only practicable model for aggregating data on a global basis given the challenges identified by the Consultation Paper in relation to Options 1 and 2.

a) Pre-conditions to the aggregation of TR data: harmonized standards for data content and regulatory access

We support the fundamental principle that the immediate primary objective and first step of any approach to the aggregation of TR data should be to ensure that good data that is capable of aggregation is submitted to the TRs. It is clear that achieving the goal of the effective aggregation of data will require firstly a significant level of cross-jurisdictional regulatory cooperation, which is difficult to attain; and secondly, a change in data content in many cases (and therefore technology systems), which could lead to negative outcomes if insufficient time is allowed for implementation. It is critical therefore, that in addition to ensuring regulatory authorities collaborate in determining data content, that ample time is allocated to the completion of these pre-conditional steps before any attempt to physically aggregate data is made.

i) Data content standards

One of the most significant threats to creating a global reporting system that is capable of producing useful aggregated data is the existence of divergent local data reporting requirements which cannot be reconciled with one another. Where a TR in one region is collecting one type of data, and another TR in a different region is collecting a different type of data, the aggregation of that data is difficult as a result. For example, in Europe transactions involving all derivatives, including both OTC and exchange traded derivatives, are subject to a reporting requirement as a result of EMIR, whereas reporting requirements in certain other jurisdictions apply only to transactions involving OTC derivatives. Further, timing requirements for which data must be reported varies by region; including daily and real-time mandated

reporting differences. Within the reported data itself, there are further differences in terms of the fields that are reportable and the taxonomy used, which are generally not standardized. CME Group is of the view that this imbalance in reporting requirements will cause difficulties for regulators seeking to aggregate TR data, and that it should therefore be addressed as part of any harmonization of data content standards. More specifically, CME recommends that an initial phase be pursued of collecting only OTC derivative transactions (as consistent with the G-20 commitment) and at a positional view in order to establish a more attainable area of success to build upon over learned experiences.

In order to facilitate such aggregation, it is essential that local standards for the content of the data submitted to TRs are harmonized to a greater extent, at the very least in relation to fields deemed to be of particular significance for the purposes of regulatory authority oversight and aggregation. In particular, it is imperative that a global consensus on the use of a unique product identifier (**UPI**) is reached. The current absence of such a consensus means that the data stored in local TRs is not configured with universal product codes and cannot be properly aggregated. The global agreement which has coalesced around the standardized content format for legal entity identifiers (**LEIs**) will arguably provide a useful starting point for the development of this fully implemented UPI.

Whilst it is necessary to establish and implement harmonized data content standards, it is arguably not prudent or necessary to establish strictly harmonized standards relating to the format for the initial collection of data. Such measures would be inappropriate because marketplace realities differ across different jurisdictions, resulting in necessarily different inbound reporting requirements. For example, technology and data submission formats may differ between markets and jurisdictions, particularly where integrated and automated reporting is built into trading or clearing systems; flexibility as to the format of data submitted to TRs is necessary in order to cater for the different technology solutions in place and available in different markets and jurisdictions. For many market participants, the choice of selecting a TR provider may be determined by whom they either already have connectivity to (for other services) or from which they operate in a complementary format; the result being lower initial and maintenance costs across systems and telecommunications connectivity.

In CME Group's view, the preferable approach is therefore to establish widely accepted data content standards that can be applied with some flexibility in local jurisdictions, but which will nevertheless ensure that configurable data is deposited with each local TR. Critically, such standards must be agreed upon and implemented globally as a pre-condition to the aggregation of TR data and the latter should therefore be assigned a lower priority relative to the completion of this first step.

ii) Regulatory access standards

Once cross-jurisdictional inbound data content standards have been fully implemented at a local level, the data which flows in to local TRs will be ready for aggregation. In order to practically facilitate aggregation, regulators will need to reach a global agreement on how the data will be structured in order to ensure that an effective solution can be put in place and that an unmanageable burden is not placed on TRs.

We believe that it is appropriate for stringent harmonized standards to be established for regulatory access to the TRs but we wish to emphasis that this should result in the limited imposition of standards

that would affect the upstream data supply connections between a TR and reporting market participants and various other TRs spanning multiple reporting and regulatory rule sets. From a technological perspective, it will be more straightforward for a TR to make future changes to the reporting protocols to the downstream data supply of the repository system.

Once such standards are agreed by the regulatory authorities and implemented by local TRs, together with those relating to data content, it will be possible for the harmonized data consumed at the regulatory authority level to be shared and aggregated across regulatory boundaries, subject to resolution of the issues identified in the Consultation Paper relating to legal restrictions in certain jurisdictions.

b) Who should aggregate: Regulatory cooperation is the only feasible option

Should the pre-conditional steps described above be completed, the result would be a global reporting system which could be delivered in relatively short time, featuring standardized content presented to the global regulatory community, originating from derivatives counterparties submitted in various technical formats. The regulatory authorities accessing this warehoused data would therefore be accessing data that is harmonized to an agreed level in critical areas and that is capable of being aggregated across jurisdictions.

The Consultation Paper sets out three basic models for the remaining question of how aggregation of derivative data should occur: a physically centralized model (**Option 1**); a logically centralized model (**Option 2**); and a regulator collection and aggregation model (**Option 3**). CME believes that the only feasible alternative is Option 3, a regulatory sharing model.

Options 1 and 2, which feature a central, supra-national aggregation mechanism, have fatal flaws. First, there is no process available for selecting a single, competitive market participant for the task of receiving data feeds from multiple local TRs and providing access to multiple different regulatory authorities. Second, the costs of creating a new, widely owned and operated aggregation mechanism for this purpose would be significant and no doubt prohibitive. Third, and most significantly of all, the fundamental reality is that there cannot be a global market-based aggregator which crosses regulatory lines in the absence of a global market regulator responsible for oversight of such body. The task of aggregating regulatory data, consuming regulatory data and providing regulatory oversight on the basis of such data is the domain of a regulator, not the market. There are no global regulators. Indeed, the Consultation Paper recognizes this fundamental fact in noting that “truly global and comprehensive data aggregation is not possible under current arrangements as no individual authority or body has comprehensive access to all data in all TRs”.

Further to the above reasons, the existence of varied local privacy laws renders the idea of a single, central aggregation mechanism unworkable. Given the existence of existing privacy laws, the only feasible mechanism for sharing data across jurisdictions and legal and regulatory regimes would be through the negotiation of numerous memorandums of understanding (**MoUs**) between the multiple regulatory agencies involved, as well as potential changes of law in various jurisdictions, as noted in the Consultation Paper. Regulators would only be able to directly share and aggregate TR data among themselves once a complete set of such arrangements were in place. CME Group is of the view that

there are no short cuts to achieving the end goal in this respect, although a considerable number of existing arrangements and MoUs between regulators may already provide part of the framework required to be put in place for these purposes.

In view of the considerations outlined above, CME Group firmly believes that the only feasible option for the global aggregation of TR data is to ensure that local TRs hold data that can be aggregated by regulators where necessary and to establish and implement global harmonized standards for regulatory access to such data. Under this model, regulators with authority over TRs in their home jurisdictions would work together with regulators in other relevant jurisdictions to share and aggregate relevant data, much as they do in certain other contexts today. To the extent that such arrangements were truly global, it would then be possible to develop a truly global view of systemic risk in the market.

Section 3: Response to specific questions

1) Does the analysis of the legal considerations for each option cover the key issues? Are there additional legal considerations – or possible approaches that would mitigate the considerations – that should be taken into account?

CME Group is of the view that the FSB has captured in the Consultation Paper all legal considerations relevant to evaluating the available options for aggregating TR data. CME Group would like to reiterate the importance of considering the differences between regulatory requirements for data content and formats and regulatory access, and also between privacy, confidentiality and data protection laws across different jurisdictions.

These considerations would appear to be a significant obstacle for Options 1 and 2 in particular and we believe that a central aggregation mechanism would be unworkable from a legal (and practical) perspective as a result.

2) Does the analysis of the data and technology considerations for each option cover the key issues? Are there additional legal considerations – or possible approaches that would mitigate the considerations – that should be taken into account?

CME Group is of the view that the FSB has identified all data and technology considerations relevant to evaluating the available options for aggregating TR data.

3) Is the list of criteria to assess the aggregation options appropriate?

We consider that the list of criteria set out in the Consultation Paper for assessing the aggregation options is appropriate.

4) Are there any other broad models than the three outlined in the report that should be considered?

In the view of CME Group, there are no models, other than those outlined in Options 1, 2 and 3 of the Consultation Paper, which should be considered.

For the avoidance of doubt, CME Group is firmly of the view that Option 3, the regulatory collection and sharing model, is the only viable model for the global aggregation of TR data.

5) The report discusses aggregation options from the point of view of the uses authorities have for aggregated TR data. Are there also uses that the market or wider public would have for data from such an aggregation mechanism that should be taken into account?

CME Group does not consider that the market or wider public would have any use for or have any entitlement to access aggregated TR data. In principle, high level aggregated data statistics could be made available by a competent body, for example, of the type currently required to be made public by trade repositories under the requirements of EMIR, but we do not consider that this form of publication of high level aggregated data would serve any specific or useful purpose beyond general interest.

Concluding remarks

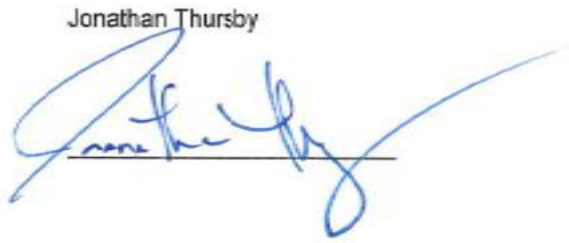
In summary, CME Group welcomes the FSB's efforts to increase transparency and market stability through aggregating OTC derivative TR data on a global basis, and believes that data aggregation will mark a fundamental step towards achieving the end goal of realizing transparency in the derivatives market and enabling regulatory authorities to effectively monitor systemic risk.

CME Group is of the view that the Consultation Paper effectively highlights the challenges associated with data aggregation and identifies the issues and criteria which must be considered when evaluating the three options proposed for aggregating data. Whilst we appreciate the FSB's consideration of different options for aggregating data, we firmly believe that, for the reasons outlined above, the only viable model is Option 3, the regulatory collection and sharing model.

CME Group would like to reiterate its appreciation for the opportunity to comment on the Consultation Paper and looks forward to continued dialogue on this issue with the FSB.

We would be happy to discuss any comments or questions you have on our response.

Yours faithfully,



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