CME Group
A CME/Chicago Board of Trade/NYMEX Company

Craig S. Donohue
Chief Executive Officer

April 21, 2010

VIA ELECTRONIC MAIL

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
rule-comments@sec.gov

Re: Concept Release on Equity Market Structure (File No. S7-02-10, Release No. 34-61358) (Federal Register Vol. 75, No 13, Page 3594, January 21, 2010)

Dear Ms. Murphy:

CME Group Inc. ("CME Group"), on behalf of its four designated contract markets ("Exchanges" or "DCMs"), appreciates the opportunity to comment on the Securities and Exchange Commission's (the "SEC" or "Commission") Concept Release on Equity Market Structure ("Release") that was published in the Federal Register on January 21, 2010.

CME Group is the world's largest and most diverse derivatives marketplace. We operate four separate Exchanges, including Chicago Mercantile Exchange Inc. ("CME"), the Board of Trade of the City of Chicago, Inc. ("CBOT"), the New York Mercantile Exchange, Inc. ("NYMEX") and the Commodity Exchange, Inc. ("COMEX"). The CME Group Exchanges offer the widest range of benchmark products available across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, metals, agricultural commodities, and alternative investment products. We also operate CME Clearing, one of the largest central counterparty clearing services in the world, which provides clearing and settlement services for exchange-traded contracts, as well as for over-the-counter derivatives transactions through CME ClearPort®.

The CME Group Exchanges serve the hedging, risk management and trading needs of our global customer base by facilitating transactions through the CME Globex® electronic trading platform, our open outcry trading facilities in New York and Chicago, as well as through privately negotiated transactions.

I. Overview and Background

CME Group commends the Commission for seeking public comment prior to considering any potential revisions to the U.S. equity market structure as it currently exists. The Commission's Release covers a broad spectrum of issues including high-frequency trading, order routing, broker-dealer internalization, broker-routing services, market data linkages, dark liquidity pools and co-location data feeds. Clearly, many of these issues are unique to the U.S. equity markets where trading volume is dispersed among many highly automated trading centers that compete for order flow in the same stocks and trading centers that offer a range of services designed to attract different types of market participants with different trading needs.

However, despite the differences between the U.S. equity markets and the futures markets, there are also some important similarities. In particular, there has been, and continues to be, a migration from a market structure that was primarily manual trading to a market structure that is now primarily automated trading. This movement to automated trading has occurred in both markets and will continue to accelerate as technology evolves and improves. CME Group's comments on the Commission's Release will be directed, at a high level, to several aspects of the Release that are comparable to developments in the U.S. futures industry.

II. High Frequency Trading

The Release identifies high-frequency trading ("HFT") as one of the most significant market structure developments in recent years. Although HFT is not clearly defined, "it typically is used to refer to professional traders acting in a proprietary capacity that engage in strategies that generate a large number of trades on a daily basis."[1] HFT volume has become a much greater percentage of the volume generated in the equity markets today with estimates ranging up to 50% of overall trading volumes.[2]

The Release seeks comment on a number of issues related to HFT including, for example, whether there should be a minimum requirement on the duration of orders before they can be cancelled and whether "pinging" orders (i.e., immediate fill or cancel) should be prohibited or restricted. In addition, is it possible to reliably identify harmful strategies through such metrics as adding or taking liquidity, or trading with or against, prevailing price movements. Also, are there regulatory tools that would address harmful strategies while at the same time have minimal impact on beneficial strategies.

CME Group believes that HFT is an important part of daily trading activity in the marketplace and it has developed in response to technological and trading strategy advances. HFT represents the natural evolution of technological advancements and improvements in the marketplace and the percentage of trading volume attributable to HFT will likely continue to increase in the future. There is evidence that HFT

[1] SEC Concept Release p. 45 (Jan. 21, 2009)
[2] The Federal Reserve Bank of Chicago, Chicago Fed Letter (Controlling Risk in a Lightning-Speed Trading Environment, Number 272 (March 2010))

increases liquidity and transparency in the marketplace and narrows spreads which allows investors to buy and sell securities at better prices and at lower costs.[3]

The use of HFT by proprietary trading firms, investment banks, hedge funds and index traders, among others, has made the marketplace more efficient and competitive for all market participants. Any attempt to place significant restrictions or limitations on HFT would be harmful to the marketplace and result in less efficient and less liquid markets. It is also important to note that automated trading or algorithmic trading has its origins in Europe. Accordingly, efforts to place limits or impose regulatory burdens on HFT in the United States may encourage HFT users to shift the trading they currently conduct in the United States to Europe and other foreign jurisdictions that are already well-equipped to handle additional growth in both equities and futures.

The CME Group Exchanges are proactive in monitoring the trading activity of HFT entities. All Automated Trading Systems ("ATS") using CME Globex are required to identify themselves as an "ATS" and register with the CME Group Exchanges. Subsequent to their registration, the CME Group Exchanges are able to monitor the trading activity of ATSs on both a real time and post-trade basis. In the event an issue arises with respect to an ATS's trading model, the CME Globex Control Center can act to reduce systemic risk by immediately contacting the designated contact person at the ATS to discuss the issue and also take any appropriate action in the marketplace in accordance with its error trade policy.

III. Co-Location

The Release identifies "co-location" as a tool used by proprietary trading firms to implement short-term trading strategies. Co-location is generally described as "a service offered by trading centers that operate their own data centers and by third parties that host the matching engines of trading centers."[4] The trading center or third party rents rack space to market participants enabling them to place their servers in close physical proximity to a trading center's match engine. Co-location minimizes latencies between the matching engine and the market participants' servers.

The Commission's Release inquires as to whether co-location provides proprietary firms with an unfair advantage because they will generally have greater resources and sophistication to take advantage of co-location services than other market participants. In addition, the Release asks whether it is fair for some market participants to pay to obtain better access to the markets than is available to those not in a position to pay for or otherwise obtain co-location services.

Advances in technology have driven, and will continue to drive, exchange marketplaces to offer faster trading services to market participants. In fact, a number of major securities and futures exchanges have already migrated to co-location offerings at the request of customers who are interested in reducing latency concerns associated with order routing of both proprietary and customer orders. As evidenced by the strong competition in trading technology, latency reductions attributable to co-location services offered

[3] Id.
[4] SEC Concept Release p. 5 (Jan. 21, 2009)

by securities and futures exchanges, as well as third party service providers are measured in milliseconds. Accordingly, the real question is not whether co-location services are beneficial to the marketplace but how can co-location services be offered to the marketplace in an equitable manner to all interested market participants that desire the low latency connections enabled by co-location.

CME Group, which will begin offering co-location services in the near future to its customers, believes that it has a model that is fair and equitable and can be used as a blueprint for other exchanges and third party providers seeking to offer co-location services. CME Group's approach to co-location services relies on several basic principles. First, co-location facilities will be under the management and control of CME Group and such services will be available to all customers. Second, all customers will be treated the same with respect to co-location services and pricing will be completely transparent to all market users. There will be no preferential pricing, no special treatment for high volume participants and no favoritism in terms of location and proximity to the trading host. Third, data center fees will be comparable to current market prices for equivalent services and fees will be in-line with prevailing market prices offered by third parties. Finally, CME Group, like other exchange co-location providers, has a more significant interest than third-party co-location providers in ensuring equal access for market users. For this reason, CME Group has planned for and will provide requisite power and space capacity to meet broad-based and long-term customer demand for our services in the same facility, rather than potentially limiting services due to power or space capacity constraints.

In light of technological advances and customer demand, co-location services that reduce latency in the trading environment for all market participants will become an even greater part of the equities and futures markets in the coming years and will strengthen the position of U.S. markets around the world. CME Group's co-location principles offer trading services to all customers equally, with price transparency and competitive market rates and these principles should be a blueprint for both the equities and futures markets.

IV. Systemic Risks and Credit Controls

The Release also discusses the concept of systemic risks in the marketplace at a high level and whether HFT, for example, poses significant risks to the integrity of the current equity market structure. The Commission asks whether high speed and large message traffic of automated trading systems threaten the integrity of trading center operations. The Release also inquires as to whether there are further steps the Commission should take to address systemic risk.

CME Group believes effective risk management at both the exchange and clearing firm levels is extremely important in today's high speed and high volume trading environment. CME Group has been a market leader in developing and providing electronic trading risk and credit control tools for both end-users and clearing member firm intermediaries facilitating direct access to CME Group markets. For example, CME Group provides the following services:

FirmSoft – A browser-based order management tool that provides real-time information on working and filled CME Globex orders, across multiple firm IDs. With FirmSoft, customers can view and cancel orders. For more information on FirmSoft, visit www.cmegroup.com/firmsoft .

Drop Copy – This service allows customers to receive real-time copies of the CME Globex execution report and reject messages as they are sent over iLink order entry sessions. For more information, visit www.cmegroup.com/dropcopy .

Cancel on Disconnect (COD) – Upon an involuntarily dropped CME Globex to iLink user connection, COD cancels all resting session/day futures and options orders for that user. For more information, visit www.cmegroup.com/cod .

CME Globex Credit Controls (GC2) – This tool provides pre-execution risk controls that enable clearing firm risk administrators to set credit limits. For more information, visit www.cmegroup.com/gc2 .

The CME Group Exchanges have recently further enhanced the risk management tools available to our clearing member firms by requiring such firms to deploy the enhanced CME Globex credit control functionality when trading on CME Globex. The purpose of the enhanced credit control functionality is to provide firms with an additional, backstop risk management tool that allows for flexible administration of limits on the accumulation of daily exposures on CME Globex. The required CME Globex credit control functionality is in addition to a clearing firm's own internal monitoring and credit control tools.

The credit controls provide pre-execution risk controls and allow clearing firm Risk Administrators to set real time caps on the accumulation of daily exposures of a clearing firm. If the applicable trading limits are exceeded, a Risk Administrator can select real time actions such as order blocking and order cancellation. The CME Group Exchanges will use a phased approach for the enhanced credit control functionality requirements imposed on clearing firms. In the first phase, clearing firms will be required to register at least one Risk Administrator with a CME Group Exchange for the enhanced system. Also, clearing firms must enter a conservative value into the automated system that controls the accumulation of daily exposures on CME Globex. During the second phase, the CME Clearing House will evaluate the values in the credit control system for each clearing firm and their execution firms relative to historical activity for the clearing firm and the resources of the firm. The purpose of the evaluation is to ensure the values selected by the clearing firm are reasonable under the circumstances.

In addition to the CME Exchanges enhanced credit control procedures, the Futures Industry Association's ("FIA") Market Access Best Practices Committee ("Committee") has developed proposed risk management tools and policies for the futures industry. The Committee's work includes a number of recommendations in areas such as pre-order checks, post trade checks, price banding, co-location policies, conformance testing and error trade policy. Even though these risk management protections are directed to the futures industry, many of the concepts from the Committee could also be instructive to the Commission with respect to the issues raised in the Release.

CME Group strongly supports credit controls and other risk management procedures that protect the integrity of the marketplace. The credit control procedures required by the CME Group Exchanges and the Committees' Market Access Best Practices proposals balance the protection of the marketplace with the continuing improvements and efficiencies of trading technology.

V. Conclusion

Although related to the securities industry, the Commission's Release does contain some general concepts that are also relevant to the futures industry. As such, CME Group appreciates the opportunity to contribute to this important risk management discussion. CME Group believes that comprehensive risk management policies are required to maintain the integrity of the equity and futures marketplaces. Such policies should work in conjunction with ever improving and sophisticated trading technologies whenever possible and not to the detriment of technology. The CME Group Exchanges are in the process of rolling out required credit control procedures to our clearing firms to protect the marketplace and the FIA has developed risk management "best practices" for the futures industry. These policies and procedures provide protection to market users in the futures industry and may be beneficial to the Commission in its current analysis of equity market structure. In addition, CME Group's co-location principles are designed to be fair and transparent for all market participants and provide a blueprint to the Commission to follow with respect to co-location issues related to the equity markets.

We would be happy to discuss any of these issues with Commission staff. If you have any comments or questions, please feel free to contact me at (312) 930-8275 or Craig.Donohue@cmegroup.com or Stephen Szarmack, Regulatory Counsel at (312) 648-5422 or Stephen.Szarmack@cmegroup.com.

Sincerely,

Craig S. Donohue

Craig S. Donohue

cc: Chairman Mary L. Schapiro
Commissioner Kathleen L. Casey
Commissioner Elisse B. Walter
Commissioner Luis A. Aguilar
Commissioner Troy A. Paredes