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**VIA ELECTRONIC DELIVERY**

Ms. Jean A. Webb  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, D.C. 20581

Mr. Jonathan G. Katz  
Secretary of the Commission  
U.S. Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

**Re: Joint Proposed Rules: Application of the Definition of Narrow-Based Security Index to Debt Securities Indexes and Security Futures on Debt Securities**

Dear Ms. Webb and Mr. Katz:

The Chicago Mercantile Exchange Inc. ("CME") welcomes the opportunity to comment upon the Commodity Futures Trading Commission's ("CFTC") and the Securities and Exchange Commission's ("SEC") proposed rules and rule amendments regarding futures and security futures on debt securities and debt security indexes. CME is currently the largest and most diverse financial exchange in the United States and the largest derivatives clearing organization in the world.

In the release, the Commissions propose to exclude from the definition of "narrow-based security index" a broad-based debt security index that meets criteria that differs from the criteria applicable to equity security indexes. A futures contract on such an index would not be a security future and thus would be subject to the exclusive jurisdiction of the CFTC. The Commissions also propose to expand the statutory listing standards to permit the trading of security futures based upon debt securities, such as single name debt securities and narrow-based security indexes composed of debt securities.

CME generally supports the Commission's proposed rulemaking and commends the Commissions for creating a framework, which if applied with an understanding of debt market structures and practices, will allow an efficient new risk management tool. We believe that the rules will positively impact the futures markets and market participants by allowing a critical risk management tool to be applied to an important and large asset class. Indeed, as the Commissions acknowledge, the proposed rules and rule amendments "would permit a greater

variety of financial products to be listed and traded that potentially could facilitate price discovery and the ability to hedge. Investors generally would benefit by having a wider choice of financial products to buy and sell.”

More specifically, with respect to the Commissions’ proposed criteria for determining whether a debt securities index is a narrow-based security index, we applaud the Commission’s proposed liberalized criteria. We believe that the criteria represent a balanced and fair approach, and one that is not only consistent with the standards prevailing in the debt security market, but are likely to spur innovation in this new market.

With respect to the Commissions’ proposal to modify the listing standards for security futures to permit the trading of security futures on debt securities, we urge the SEC to publish for comment the listing standards that will apply to debt securities. Historically, with respect to equity securities, the SEC has applied non-promulgated guidance to determine whether a security future may be listed. Given the importance of listing standards, we believe that interested parties should have an opportunity to provide meaningful comment on any such standards. In particular, we believe that it is critical that security futures on debt securities not be subject to the same standards applicable to equity securities, particularly with respect to seasoning and volume requirements, because the typical life cycle of corporate debt securities is such that they tend to be issued, marketed and traded briefly and generally “put away” for long-term investment. The listing standards applicable to security futures on debt securities should be tailored to fit the unique characteristics and nature of debt securities, and we look forward to the opportunity to provide our input into the standards.

### **Conclusion**

Thank you for the opportunity to comment upon the Commission’s study. If you have any questions or comments, please do not hesitate to contact me, John Labuszewski, Managing Director, Product and Research Development, at (312) 466-7469, or Matthew F. Kluchenek, Director and Associate General Counsel, at (312) 338-2861.

Respectfully submitted,



Craig S. Donohue