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VIA ELECTRONIC DELIVERY

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

RE: SR-CBOE-2006-14; SR-NYSE-2006-13;
Portfolio Margining and Cross Margining

Dear Mr. Katz:

The Chicago Mercantile Exchange Inc. ("CME") welcomes the opportunity to comment upon the Chicago Board Options Exchange's ("CBOE") and the New York Stock Exchange's ("NYSE") proposed amendments to their performance bond requirements that would permit certain broker-dealers to offer portfolio margin and cross margin accounts to their customers. CME is currently the largest and most diverse financial exchange in the United States. As an international marketplace, CME brings together buyers and sellers on its CME Globex® electronic trading platform and trading floors. CME offers futures and options on futures primarily in four product areas: interest rates, stock indexes, foreign exchange and commodities. CME is also the largest derivatives clearing organization in the world. We believe that CME's substantial experience and leadership in clearing and risk management will benefit both the Commission and industry participants with respect to the proposed amendments.

As you know, on July 20, 2005, the Securities and Exchange Commission (the "SEC") approved a voluntary pilot program for the CBOE and the NYSE, which permits member firms to margin listed, broad-based U.S. securities index options, index warrants and related exchange traded funds according to a risk-based portfolio margining methodology. Under the pilot programs, member firms also are permitted, subject to SIPC and CFTC approvals, to cross margin the security positions with related futures and options on futures and compute a performance bond requirement based on the entire portfolio. On March 30, 2006, the CBOE and NYSE submitted rule amendments to broaden the scope of the pilot programs by including certain OTC instruments. On January 18, 2005, CME commented upon the pilot programs. (In this letter, CME generally uses the term "performance bond" to denote the collateral deposits required to secure open positions; we recognize that some market participants refer to the performance bond requirement simply as margin.)

CME continues to believe that the portfolio and cross margining aspects of the pilot programs are well intentioned and could result in performance bond reductions and cost savings for participants in the securities and futures industries. We recognize, however, that the pilot programs have stalled and the real benefits of the original proposals have not been realized due to various regulatory uncertainties or perceived regulatory conflicts. While progress has been encouraging, we believe that the SEC, the NYSE and the CBOE should act more urgently to ensure that portfolio and cross margin treatment in the U.S. reflects global standards and promotes efficient market growth.

CME is uniquely qualified to discuss portfolio margining and particularly cross-margining. Since 1988, CME has been an industry leader in the move to portfolio margining with the development of CME SPAN®. The SPAN margining algorithm allows for more efficient use of capital as opposed to strategy-based systems by assessing the true risk of portfolios that may have futures, cash and option products combined. SPAN accomplishes this assessment by viewing the possible profits and losses of a portfolio over a number of wide-ranging scenarios and determining the worst loss to be the margin requirement for that portfolio. Such a recognition of proper offsets, while still identifying the overall risk in the portfolio, has made SPAN the leading portfolio margining tool. SPAN is now used by more than 50 exchanges and clearing organizations throughout the world, as reflected on Exhibit A, for both security and futures products and is viewed by many as the preeminent portfolio-based margining methodology. Based upon the value and acceptance of SPAN, SPAN currently accounts for approximately 96% of global security futures volume and, with respect to equity options, is used by such large exchanges as Euronext.liffe (Paris), the Osaka Stock Exchange, the Toyko Stock Exchange, the National Stock Exchange of India, the Bombay Stock Exchange and the London Clearinghouse.

CME has also led the derivatives industry in establishing cross-margining agreements with other leading clearing houses. Our cross-margining agreements reduce capital costs for clearing firms and customers. These agreements allow an individual clearing organization to recognize a clearing firm's open positions at other participating clearing organizations, and clearing firms are able to offset risks of positions held at one clearing organization against those held at other participating clearing organizations. As you know, such an arrangement reduces the need for collateral deposits by the clearing firm. For example, our cross-margining program with the Options Clearing Corporation reduced performance bond requirements for our members by approximately $1.3 billion a day in the fourth quarter of 2005. We have implemented cross-margining arrangements with the Fixed Income Clearing Corporation ("FICC"), formerly the Government Securities Clearing Corporation, LCH.Clearnet Group for positions at Euronext.liffe and the New York Mercantile Exchange ("NYMEX").

CME's cross-margin programs consist of both "one pot" arrangements (with the OCC) and "two pot" arrangements (with the FICC, LCH/LIFFE and NYMEX). In a one pot arrangement, collateral is held in a jointly controlled bank account and custody account and daily payments are netted to a single payment to or from the clearing member and the joint account of the two clearing houses that simultaneously settles its obligations with both. Daily cash settlements of option premium, futures variation payments, exercise settlement amounts and "original" margin are netted and paid by a member into a joint bank account or from a joint bank account to a member. Cash settlements between clearing organizations are made separately and netted across all clearing members having cross-margin accounts.

The one pot approach generally provides the most optimal level of economic risk offsets, but it also includes certain costs or complications, including the need to establish clarity around a single regulatory, capital, customer protection and bankruptcy scheme, which CME believes will be difficult to achieve. In addition, the one pot approach carries with it significant operational impacts for the participating clearing members and the end users.

In a two pot approach, there is no sharing of collateral between clearing organizations in a single account. Instead, each clearing organization guarantees the member's obligations to the other clearing organization with respect to the performance bond reduction resulting from the cross margining agreement. The guarantees between clearing organizations do not represent a significant risk because of the protections provided in the legal agreements that must be executed by the clearing organizations and the participants in the cross margin programs. This kind of cooperation and coordination should be encouraged in the global financial marketplace. In addition, because each clearing organization can run its existing settlement cycles, member firms do not need to implement any new operational procedures and each clearing organization can manage its own collateral deposits on its own.

The two pot approach provides less optimal recognition of economic risk offsets at the clearing level than a one pot approach. There would not necessarily be a similar impact at the customer account level given the proper prioritization of risk offset calculations. However, a two pot approach more easily accommodates differences in customer protection mechanisms, capital requirement structures, and is operationally transparent to both clearing members and the end users. A two pot methodology also provides greater certainty around the application of bankruptcy provisions. To the extent that clearing participants are willing to bear some additional operational cost, setting the positions subject to a two pot cross margining process aside in separate clearing level accounts with each participating clearing organization allows for an evaluation of risk offsets that more closely approximates those available under a one pot approach.

Having developed and implemented both one pot and two pot cross margining arrangements, CME believes that there are benefits to both approaches. However, given the current stalemate involving the pilot programs, CME would be in favor of a two pot approach to cross margining and portfolio margining with respect to the pilot programs.

The goal of the two pot approach would be to allow one pot to hold security related positions subject to security law and SIPC protections while the other pot would hold futures related positions and be subject to the Commodity Exchange Act and CFTC segregation protections. While some industry participants have argued that the full benefits of cross margining are not achieved through a two pot approach, such an approach certainly provides more benefits to participants than are currently available.

The two pot approach to cross margining can offer a number of distinct advantages to the *status quo* and the one-pot approach. They include:

- Performance bond reductions: Participants in a cross margining program are able to enjoy significant performance bond reductions through offsetting positions that are cleared at two different organizations. Through existing two-pot programs, accounts that have offsetting positions in highly correlated products are still able to achieve performance bond reductions via recognized spreads agreed to by the clearing organizations.

- Regulatory Clarity: The two-pot approach already crosses different regulatory jurisdictions in the U.S. and outside the U.S. It allows products to continue to be appropriately margined under the rules and regulations that are in existence under each regulatory regime. By not imposing different rules on a market, each regulator can take comfort in its current practices for regulating intermediaries and safeguarding customer accounts. This approach is also likely to hasten the approval process by the regulatory authorities.

- Operational Efficiency: Since the positions and collateral are held separately at clearing organizations, there is no need to identify positions and bring them into a separate one pot account requiring separate collateral from existing positions that are not cross marginable. Current account structures could continue to exist with little added programming costs and greater operational ease while still allowing for significant performance bond reductions.

The participants in the futures and securities industries could benefit financially from the CBOE and the NYSE's pilot programs, as discussed above, if there was greater interest and participation within the industries. In order to generate greater participation in the pilot programs, we urge the CFTC and the SEC to find common ground with respect to portfolio margining and cross margining.

CME believes that an important first step in such a compromise would be for the two pot approach to cross margining to be accepted by the CFTC and the SEC with respect to the pilot programs discussed above and for the regulatory agencies to continue discussing portfolio margining and cross margining in an effort to resolve regulatory issues. CME would be pleased to participate in any such discussions and also provide our own experiences and insights regarding cross margining and portfolio margining.

If you have any questions or comments, please do not hesitate to contact me, Kim Taylor, President and Managing Director of the CME Clearinghouse, at (312) 930-3156, or Matthew Kluchenek, Director and Associate General Counsel, at (312) 338-2861.

Very truly yours,

Craig S. Donohue

Craig Donohue

cc: Mr. Ananda Radhakrishnan
Director, Division of Clearing and Intermediary Oversight
Commodity Futures Trading Commission

Exhibit A

Exchanges and Clearing Organizations That Use CME SPAN®
(as of October, 2005)

In the USA:

1) Chicago Mercantile Exchange Inc.
2) Chicago Board of Trade
3) Mid-America Commodity Exchange
4) Board of Trade Clearing Corp.
5) OneChicago, LLC
6) U.S. Futures Exchange, LLC
7) CBOE Futures Exchange, LLC
8) Chicago Climate Exchange
9) New York Mercantile Exchange
10) New York Board of Trade
11) New York Clearing Corp.
12) Nasdaq Liffe Markets, LLC
13) Kansas City Board of Trade
14) KCBOT Clearing Corp.
15) Minneapolis Grain Exchange
16) EnergyClear
17) BrokerTec
18) BrokerTec Clearing

In Canada:

19) Canadian Derivatives Clearing Corp.
20) Winnipeg Commodity Exchange

In Europe:

21) London International Financial Futures Exchange
22) London Metal Exchange
23) International Petroleum Exchange
24) London Clearing House
25) Euronext (MATIF was the original licensee)
26) Clearnet SA
27) KELER (Budapest)
28) BAT - Budapesti Arutozsde (Budapest Commodities Exchange)
29) BET - Budapesti Ertektoszde (Budapest Stock Exchange)
30) KDPW SA, or Polish National Depository for Securities
31) NOS (Oslo) - Norsk Opsjonssentral AS (NOS)
32) Nord Pool – The Nordic Power Exchange
33) Eurex Clearing AG
34) MICEX

In Asia:

35) Japan Securities Clearing Corporation (clears for Tokyo Stock Exchange)
36) Osaka Securities Exchange
37) Tokyo International Financial Futures Exchange
38) Singapore Exchange
39) Taiwan Securities Clearing Depository
40) Taiwan Futures Exchange
41) Hong Kong Exchange
42) HKFE Clearing Corp.
43) Shanghai Futures Exchange
44) Sydney Futures Exchange
45) New Zealand Futures & Options Exchange
46) SFE Clearing Corp
47) Bombay Stock Exchange
48) Bombay Stock Exchange Clearing House
49) National Stock Exchange of India
50) National Securities Clearing Corp. Ltd.
51) Multi Commodity Exchange of India Ltd.
52) Dubai Gold & Commodities Exchange