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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: Portfolio and Cross Margin; File No. SR-CBOE-2002-03; File No. SR-NYSE-2002-19; 69 *Fed. Reg.* 77275; 69 *Fed. Reg.* 77287

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 proposed amendments to their margin requirements that would permit certain broker-dealers to offer portfolio margin and cross margin accounts to their customers. CME is currently the largest futures 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. In 2004, the CME Clearing House cleared more than 1.386 billion contracts, which represents 85% of all futures and options contracts traded on U.S. designated contract markets. While maintaining an average of $40 billion of performance bond collateral, we move $1.5 billion to $3 billion in daily settlement variation payments among market participants. 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.

According to the releases, the CBOE and NYSE propose to amend their rules, for certain customer accounts, to allow member organizations to margin listed, broad-based, market index options, index warrants and related exchange-traded funds according to a portfolio margin methodology as an alternative to the current strategy-based margin methodology. The proposed rule amendments will also provide for cross-margining by allowing broad-based index futures and options on such futures to be included with listed, broad-based index options, index warrants and related exchange-traded funds for portfolio margin treatment, in a separate cross-margin account.

CME generally supports the proposed amendments. Indeed, CME participated in discussions with the CBOE (and other exchanges) when portfolio margining was originally proposed several years ago. CME believes, however, that with the widespread acceptance of SPAN® as the preferred margining algorithm for most exchanges and clearing firms, the proposed amendments should be expanded to specifically reference that any risk based portfolio margining algorithm used by the participating clearing organization is allowed for use in the program for establishing margin requirements.

Since 1988, CME has been an industry leader in the move to portfolio margining with the introduction of SPAN. The SPAN margining algorithm allows for more efficient use of capital as opposed to strategy-based systems by appropriately 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 for both security and futures products and is viewed by many as the preeminent portfolio-based margining methodology.

Importantly, since 1989, SPAN has been used by clearing firms as part of the current CME-OCC cross margin program in order to allocate the firms' overall margin requirements to their subsidiaries and for market-maker activity. This cross-margin program has saved clearing firms more than $100 billion in 2004 alone. In fact, because CME is the largest equity derivatives market in the world, with a 95% market share in stock index futures trading in the U.S., many of CME's market participants are active in the equity option, equity index option and ETF markets, and they use our products to hedge and transfer risk in those markets. Our program of portfolio and cross margining treatment has thus translated into tangible economic benefits for our customers.

We further believe that, perhaps as part of a second phase of implementation, the class of products and market participants subject to portfolio and cross margin treatment should be expanded. The benefits of portfolio and cross margining would apply with equal force to such products as individual equity securities and narrow-based indexes and, over time, the expansion of the program to include a broader selection of customer participants would also be beneficial. Expanding portfolio and cross margin treatment to include these products would thus translate into tangible savings for these market participants, and would be consistent with the margining treatment that the current version of Regulation T of the Federal Reserve Board allows.

The CBOE's and NYSE's proposed amendments represent a step in the right direction. We urge the Commission, however, to require the expansion of the use of the programs to include additional time-tested algorithms such as SPAN and to consider, at a future juncture, the expansion of the types of products and market participants subject to portfolio and cross-margin treatment.

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 or Matthew F. Kluchenek, Director and Associate General Counsel, at (312) 338-2861.

Sincerely,

Craig S. Donohue