

Commodity Market Regulation: Key Drivers and Market Impact

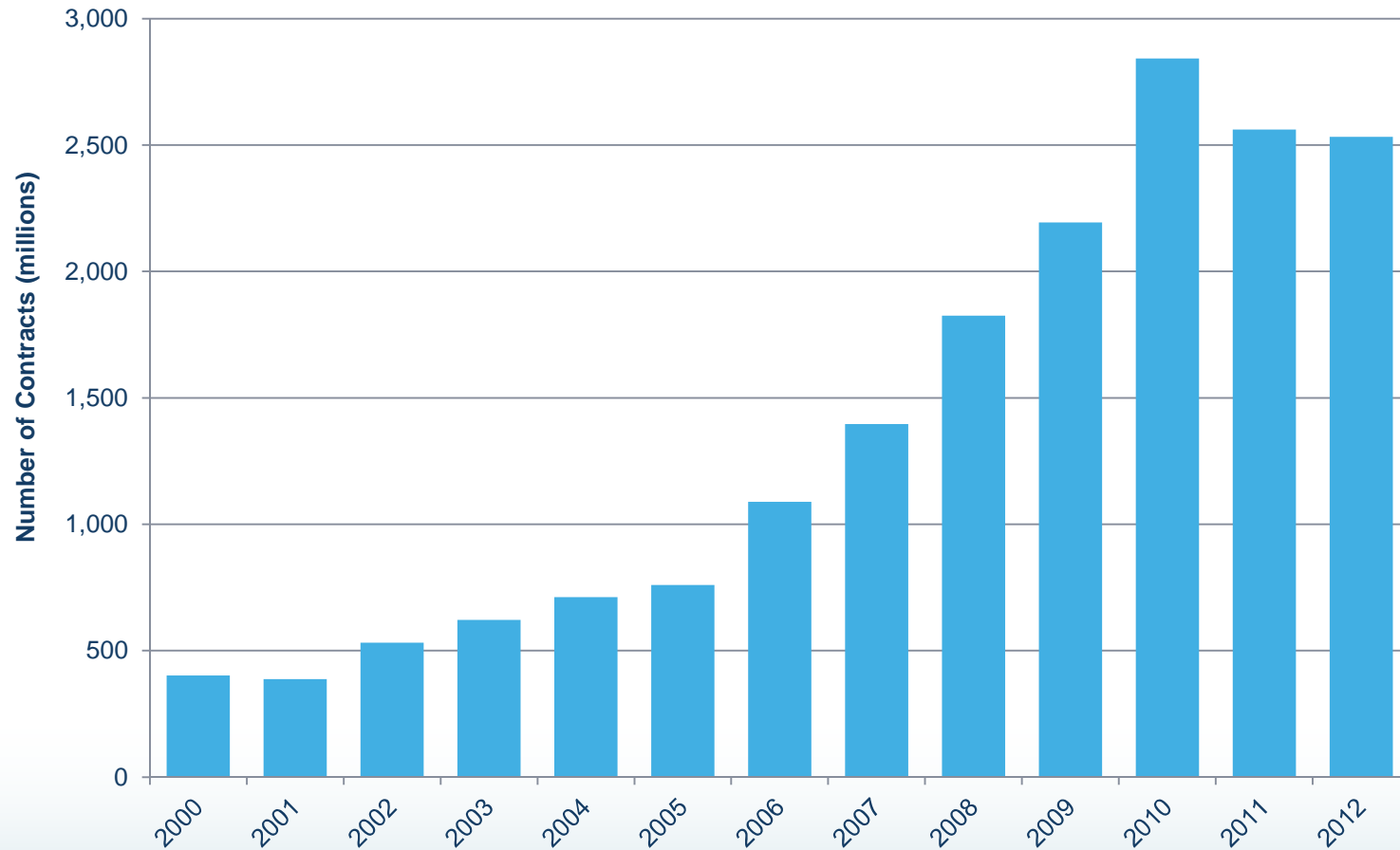
Commodity Club, Zurich
21 March 2013

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Overview

- Growth in Exchange-Traded Commodities
- Commodity Derivatives: Key Regulatory Drivers
- Metals Example: Impact of Regulation on Trading Behavior
- Implementing the G20 Reforms
- OTC Clearing and Reporting
 - Implementation Timelines
 - Cross-border Rules
- Capital and Margin
- The Changing EU Landscape: MiFID II/MiFIR
- Position Limits
- EU Financial Transaction Tax

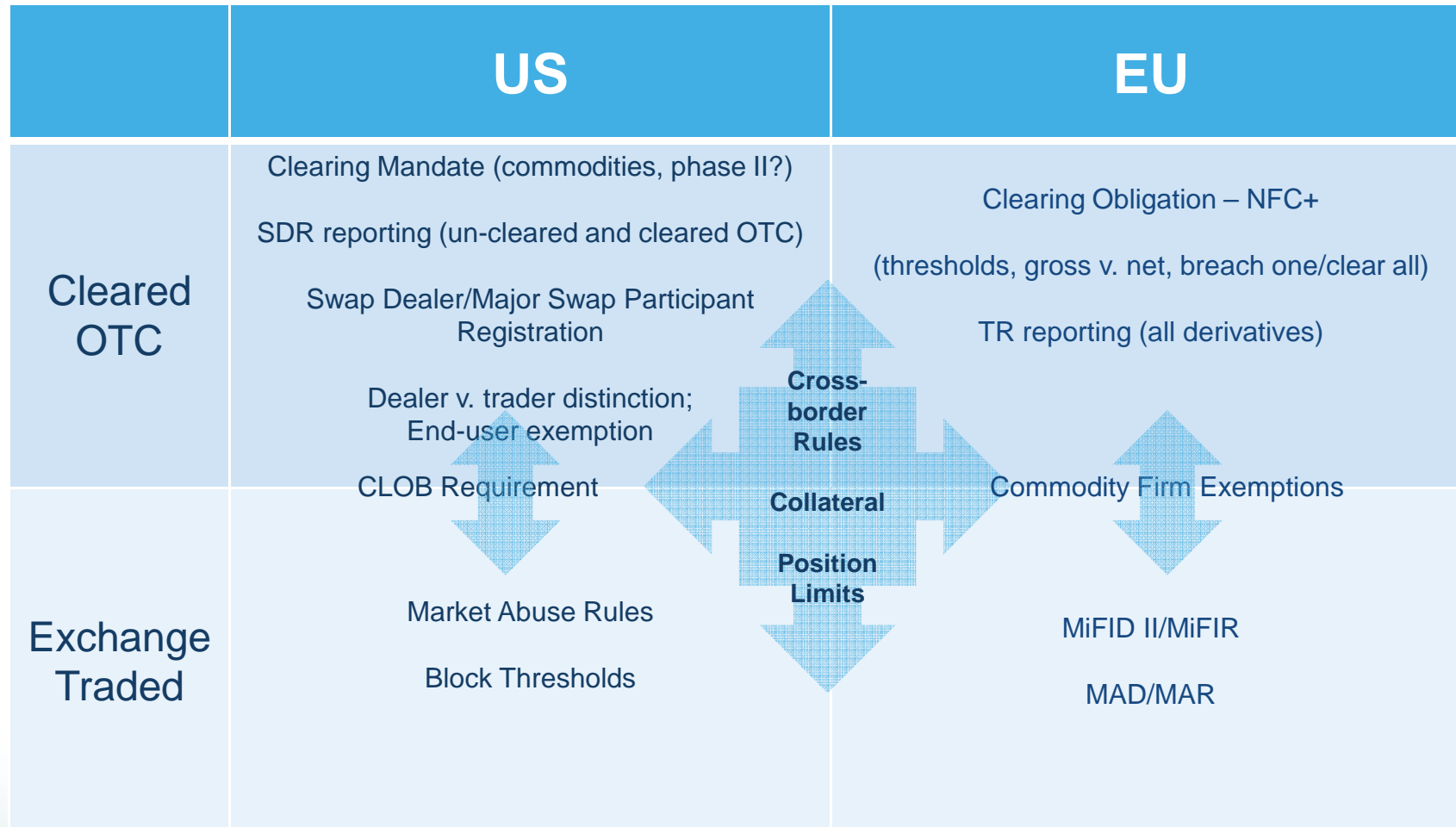
Strong Growth of Exchange-Traded Commodities Over the Last Decade



Source: FIA and CME Group



Commodity Derivatives: Key Regulatory Drivers

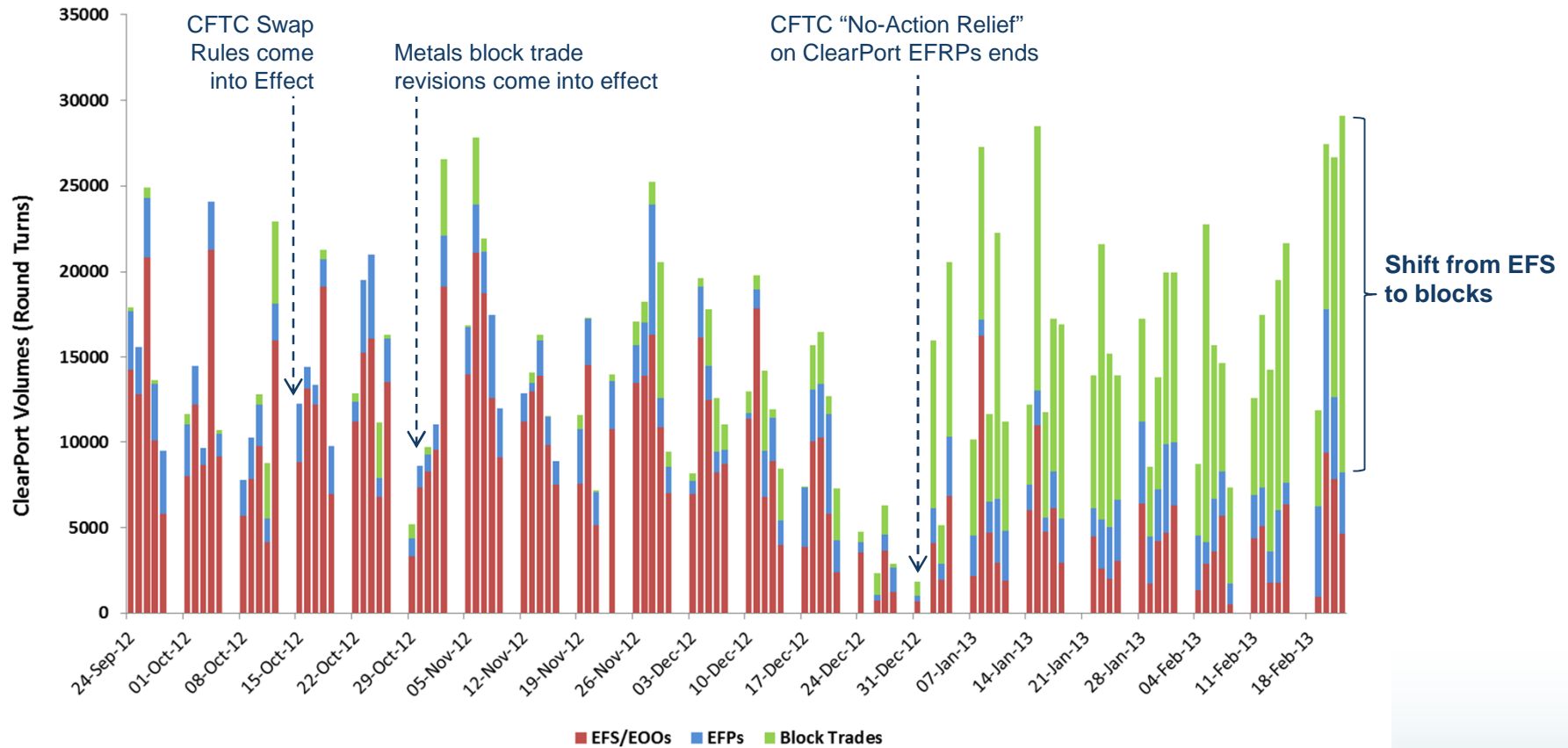


Metals Activity on CME ClearPort

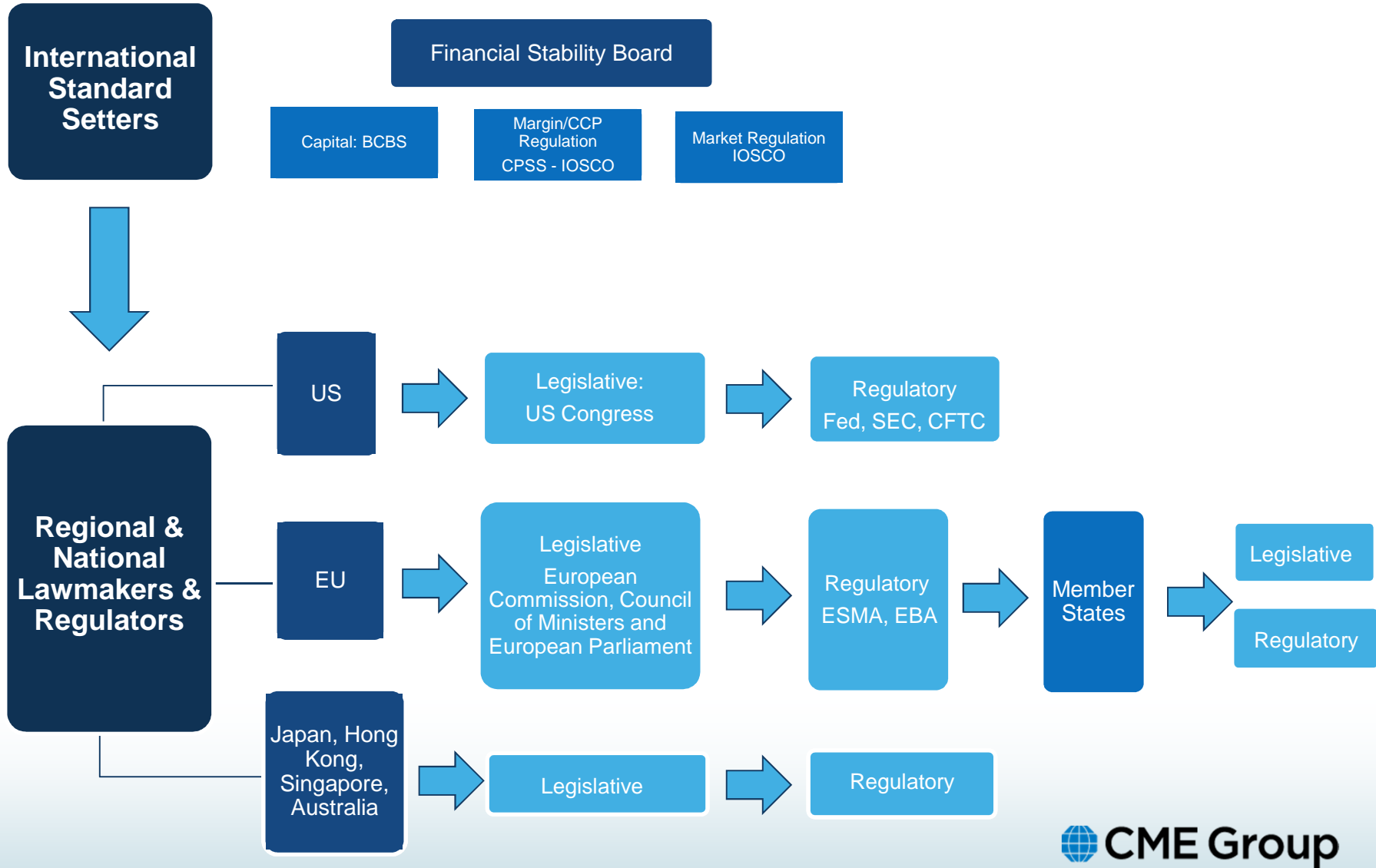
Metals ClearPort market has transitioned to futures to a large extent...

More than 30 metals contracts are now block eligible >>> Block trades now account for nearly 55% of all ClearPort Volumes, and almost 70% (excluding EFPs)

Daily metals volumes via ClearPort by transaction type



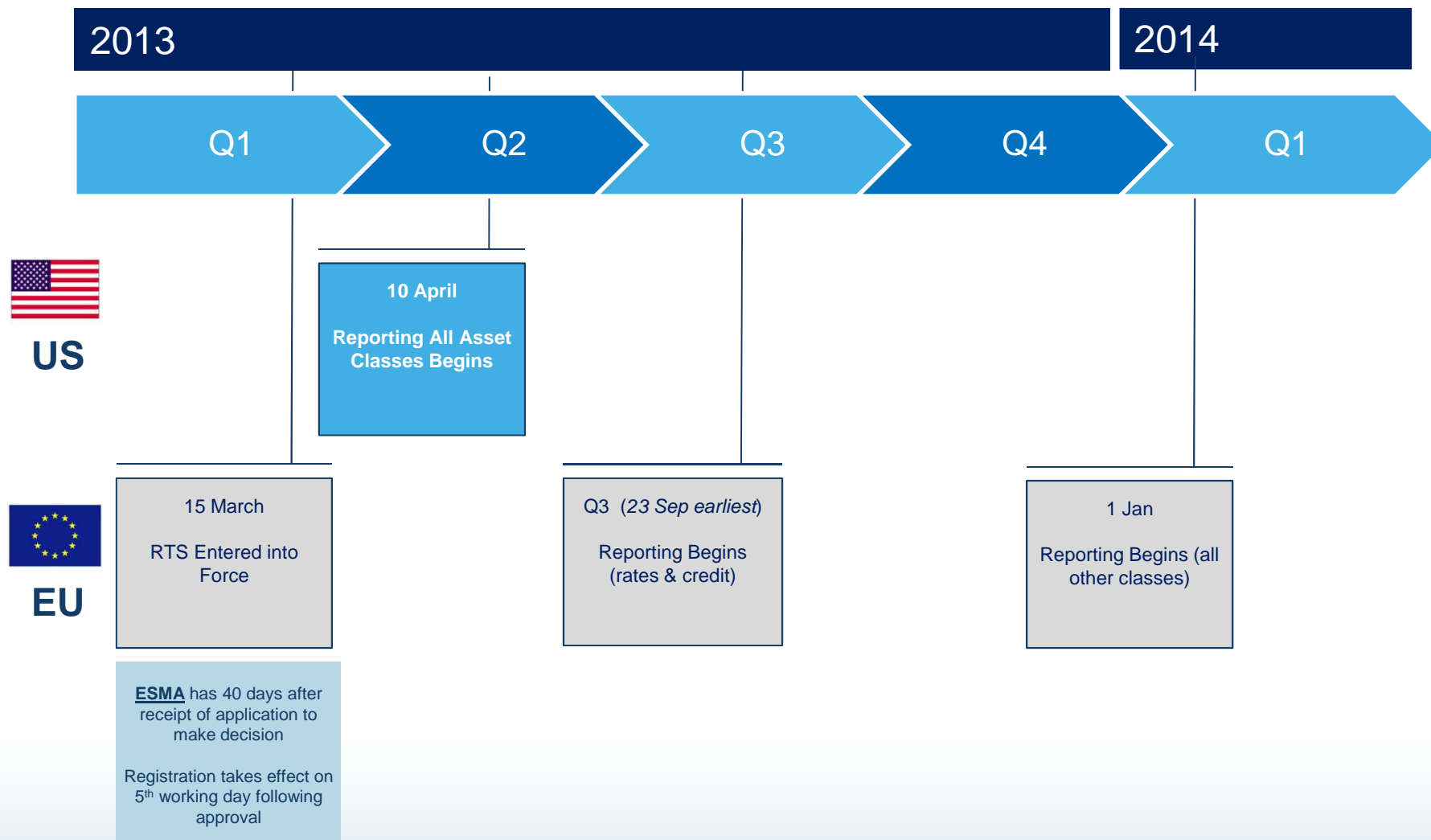
Implementing the G20 Mandates



OTC Reporting – Key Regulatory Updates

US	Europe	Asia
<ul style="list-style-type: none">• Mandatory reporting to Swap Data Repositories (SDR) begins for all entities April 10• Mandate includes cleared and non-cleared OTC derivatives• 3 registered SDRs	<ul style="list-style-type: none">• Mandatory reporting to Trade Repositories (TR) projected for Q3 2013• Mandate includes all derivatives (cleared, non-cleared, and exchange traded)• 10+ potential TRs	<ul style="list-style-type: none">• Reporting requirements in each jurisdiction• Beginning 2013/2014• Phase-in and exemptions in certain jurisdictions

OTC Reporting – Projected Implementation in US and EU



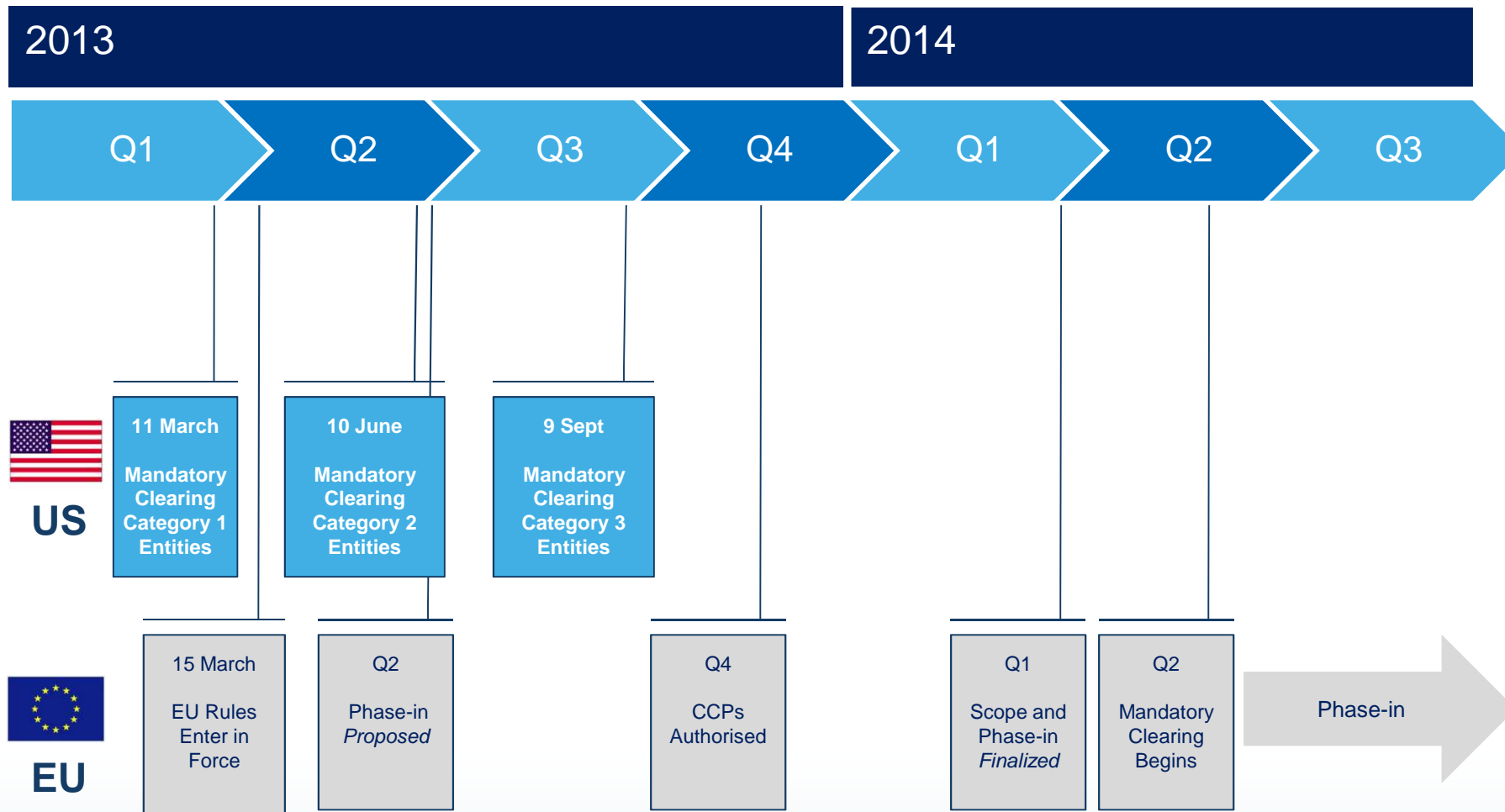
US – Reporting to Swap Data Repositories (SDR)

- SDRs must register with CFTC and comply with real-time public reporting of swap transaction and pricing data.
- The CME Repository Service is a CFTC registered SDR service that supports Credit, Interest Rates, Commodities and FX asset classes.
- The CME Repository Service seamlessly integrates with CME Clearing and helps market participants with swap transaction reporting and compliance.
- On 6 March 2013, the CFTC gave approval to Rule 1001, which brings transparency, compliance with Dodd-Frank rules, clarity and certainty for market participants.
- CFTC still working to answer outstanding questions to clarify SDR requirements for certain products.

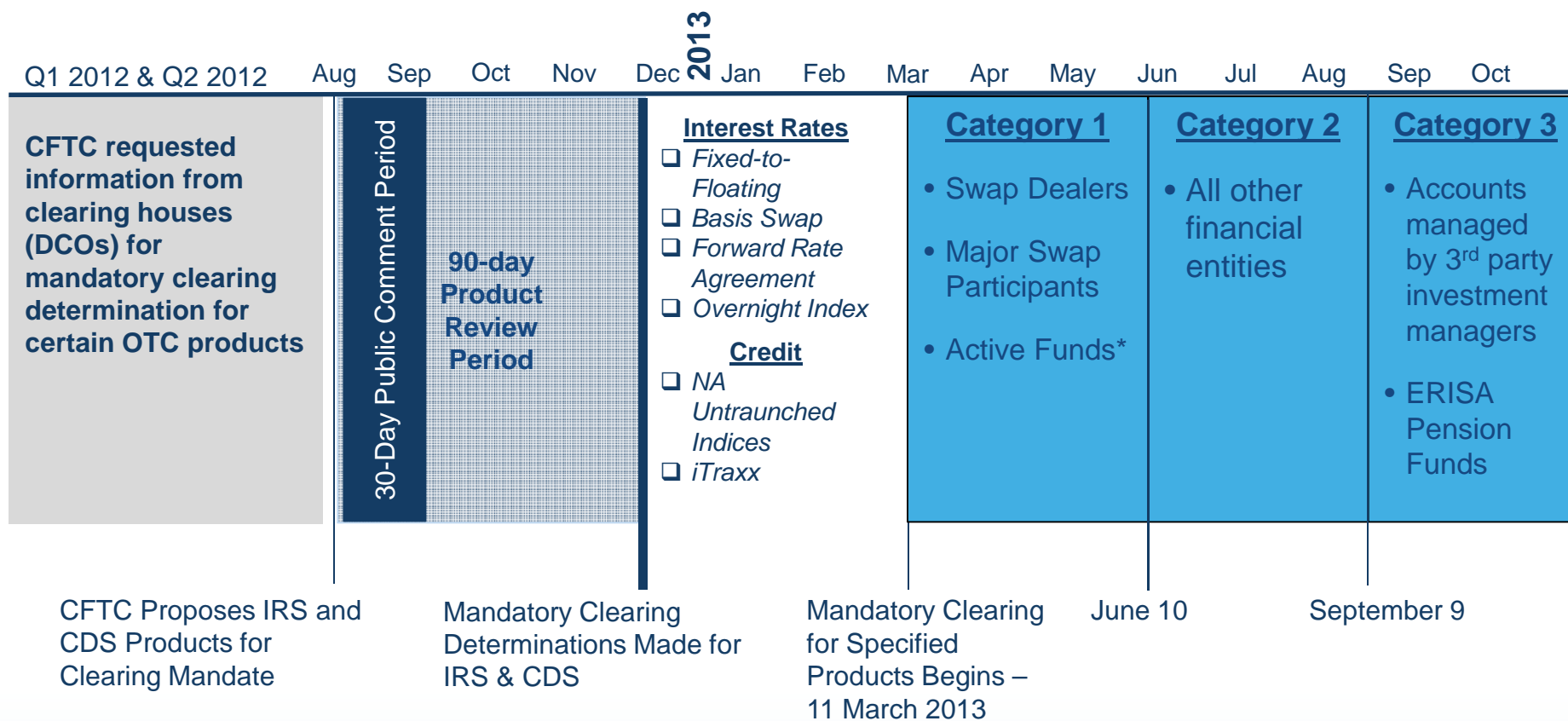
EU – Reporting to Trade Repositories (TR)

- 23 September – Earliest possible date for reporting Interest Rates & Credit; 1 January 2014 all other asset classes
- ESMA plans to issue a Q&A in late March/early April to supplement regulatory technical standards
- Significant challenges around ETD reporting

Mandatory Clearing – Projected Implementation in US and EU

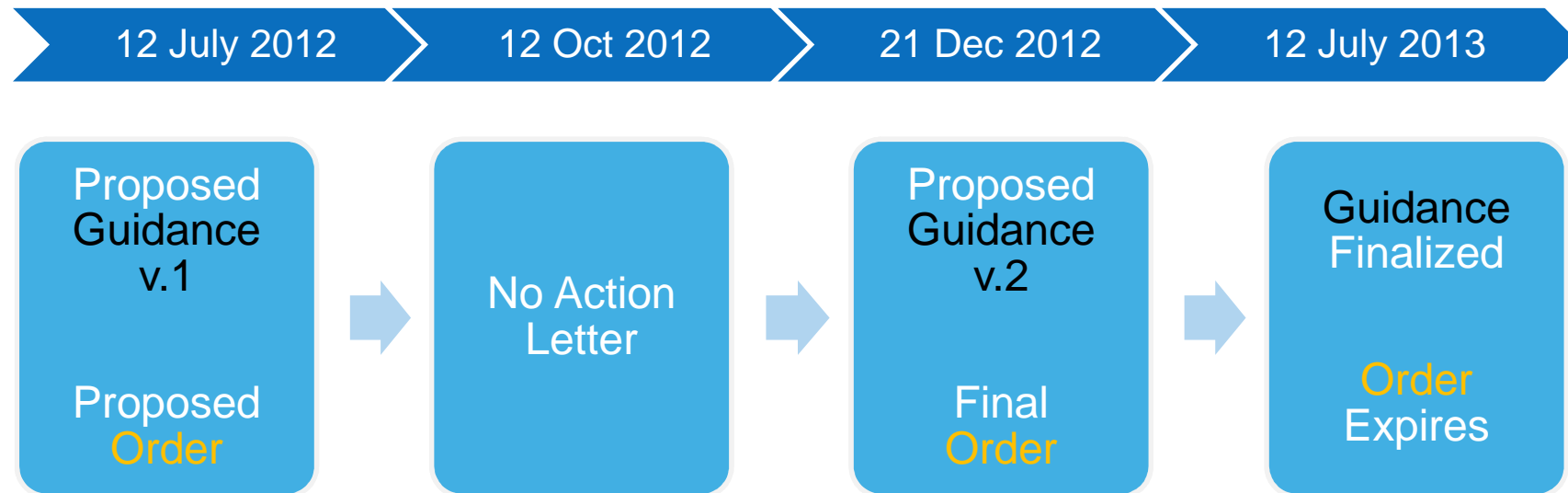


US - Clearing Implementation Timing



* CFTC has defined "active funds" as private funds (as defined under the Investment Advisors Act) trading 200+ swaps per month for the preceding 12 months

U.S. Cross-Border Rules – Timeline



- **Delayed** compliance with certain CFTC swaps rules for certain non-US entities
- **Excluded** certain cross-border swap activity from counting towards the Swap Dealer (SD) and Major Swap Participant (MSP) thresholds
- Set a **temporary definition** of “US person”
- **Reopened comment period** for the original cross-border guidance and proposed new elements including two revised prongs of US Person definition

Cross-Border Rules - Key Takeaways

- Final order provides relief from CFTC rules for many non-US participants until 12 July 2013. Non-US entities should focus on additional prongs for US Person definition (Proposed Guidance v.2)
- EU proposal under EMIR expected this year
- Formal international coordination of regional and national cross-border frameworks began late 2012 and will continue through 2013

Comparative View: Capital & Margin

	Non-cleared OTC	Cleared OTC	Exchange Traded	Timing
Capital Basel III Implementation	10-Day	5-Day	5-Day	Interim standards currently being implemented in national jurisdictions
Margin BCBS-IOSCO Margin Requirements; CFTC; EMIR	10-Day	US: 5-Day EU: 5-Day	US: 1-Day (CFTC) EU: 2-Day (EMIR)	Non-cleared phase-in recently proposed

Trading Regulation - Key Updates

US	Europe	Asia
<ul style="list-style-type: none">• Final Swap Execution Facility (SEF) rules expected in March• Position limits rule overturned; new proposal expected• CFTC proposal on HFT regulation expected in 2013	<ul style="list-style-type: none">• MiFID review includes new rules on position limits, HFT regulation, and introduces the Organized Trading Facility (OTF) for OTC trade execution• Similarities and differences from existing EU trading platforms and US SEFs	<ul style="list-style-type: none">• No trade execution requirement proposed in Australia or Singapore• Japan – legislation passed in 2012 and will be phased-in• HK to conduct further study on the need for trading mandate

EU Update – MiFID Review Timeline

Markets in Financial Instruments Directive & Regulation MiFID II/MiFIR

- Position Limits/Position Management
- Regulation of Algorithmic Trading/HFT
- Market Structure for Trading Venues (RM, MTF, OTF)
- Open Access to CCPs & Trading Venues
- Authorization and Recognition of EU and Third-country Trading Venues



Position Limits Update

US	EU
<ul style="list-style-type: none">• Original CFTC rule overturned:<ul style="list-style-type: none">• limits for spot months and non-spot months• prescriptive hedge exemption and aggregation frameworks• Court found that rule did not meet cost/benefit standards under US law• CFTC working to propose new rule in 2013	<ul style="list-style-type: none">• Provisions in MiFID II/MiFIR currently going through legislative review; expected to be finalized end 2013• Commission proposal included position limits or “alternative arrangements”• Major debate over who will set and manage limits, i.e. national authorities vs. trading venues

EU Position Limits Update

European Parliament: ECON committee report puts in place compromise for co-existence of two regimes.

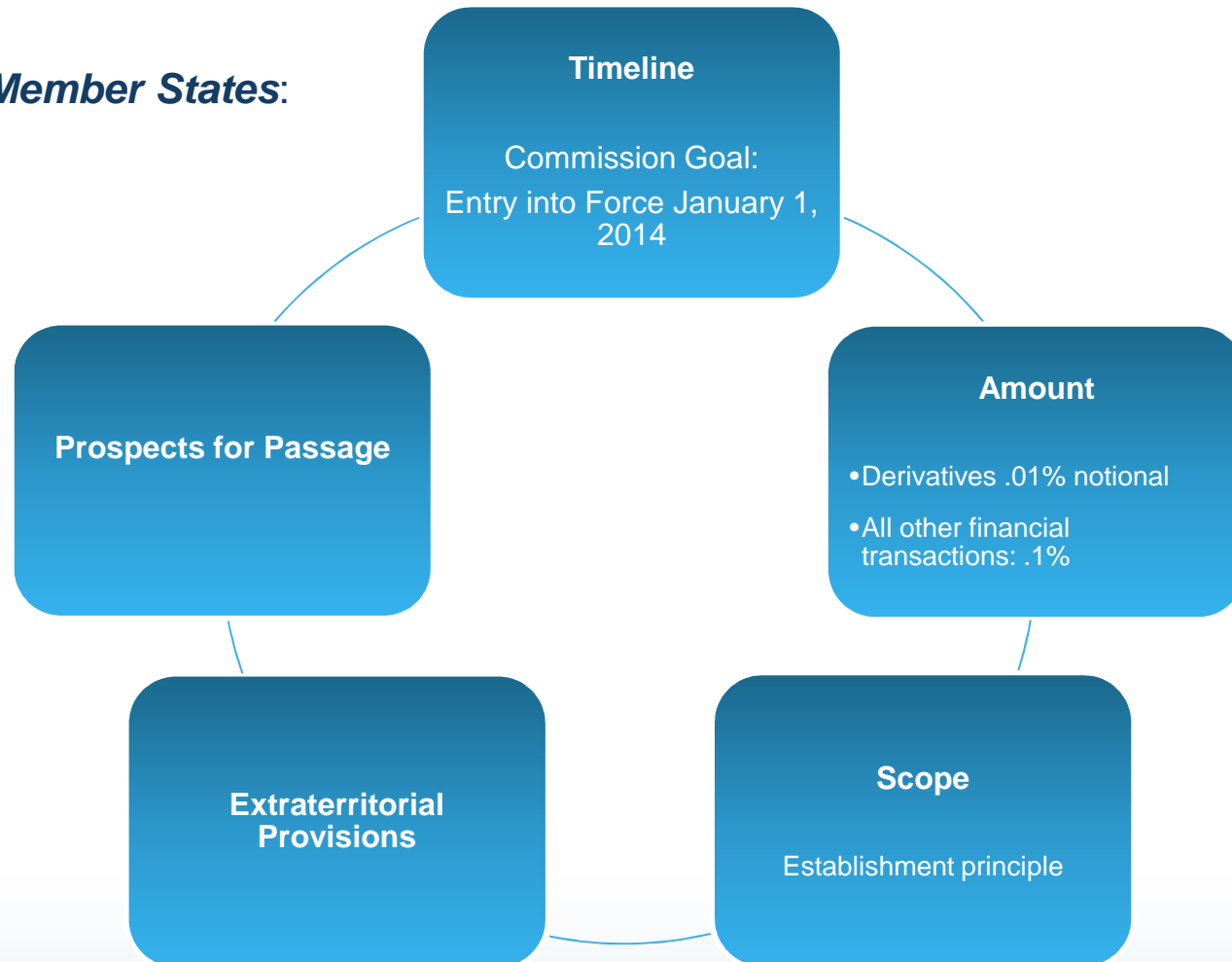
- **Position checks** for hedging positions of non-financial entities on regulated markets, **position limits** for all other.
- ESMA and Commission to define position limits and checks through implementing legislation.

Council: Current Council position shifts competencies to national authorities for setting and applying limits, rather than operators of RMs, MTFs, and OTFs. Hedging positions excluded. Position management controls to be put in place by market and trading venue operators.

EU-11 FTT: Enhanced Cooperation Agreement

Participating Member States:

- Belgium
- Germany
- Estonia
- Greece
- Spain
- France
- Italy
- Austria
- Portugal
- Slovenia
- Slovakia



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