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House Committee on Agriculture

October 14, 2008

I am Kimberly Taylor, Managing Director and President of the Clearing House of CME Group Inc. Thank you Chairman Peterson and Ranking Member Goodlatte for inviting us to testify today.

CME Group was formed by the 2007 merger of Chicago Mercantile Exchange Holdings Inc. and CBOT Holdings Inc. CME Group is now the parent of CME Inc., The Board of Trade of the City of Chicago Inc., NYMEX and COMEX (the "CME Group Exchanges"). The CME Group Exchanges are neutral market places. They serve the global risk management needs of our customers and producers and processors who rely on price discovery provided by our competitive markets to make important economic decisions. We do not profit from higher food or energy prices. Our Congressionally mandated role is to operate fair markets that foster price discovery and the hedging of economic risks in a transparent, efficient, self-regulated environment, overseen by the CFTC.

The CME Group Exchanges offer a comprehensive selection of benchmark products in all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, agricultural commodities, energy, and alternative investment products such as weather and real estate. We also offer order routing, execution and clearing services to other exchanges as well as clearing services for certain contracts traded off-exchange. CME Group is traded on NASDAQ under the symbol "CME."

The Credit Default Swap market has grown because credit derivatives permit dispersion and realignment of credit risks. These instruments are a tremendously valuable financial tool in the right hands and used properly. However, the individual and systemic risks created by the exponential growth of such contracts has not been properly managed—in some cases it appears not to have been understood by the managers who were highly compensated for promoting these instruments. The lack of transparent pricing, standardized contract terms, multilateral netting and all of the other advantages that flow from an integrated trading and central counterparty clearing system have compounded risk and uncertainty in this market.

There is a solution. The transparent price discovery and multilateral trading and clearing mechanisms that has been proposed by CME and Citadel Investment Group offers a systematic method to monitor and collateralize risk on a current basis - reducing systemic risk and enhancing certainty and fairness for all participants. Our solution offers regulators the information and transparency they need to assess risks and prevent market abuse. Our systematic multilateral netting and well conceived collateralization standards will eliminate the risk of a death spiral when a jump to default of a major reference entity might otherwise create a cascade of failures and defaults.

Let me provide a few examples of the problems, and the solutions that our proposal offers:

- First, CDS markets are opaque: best price information is not readily available, as it is on electronic trading facility. Efficient and accurate mark-to-market practices are hindered by the lack of transparency. Disagreements are common, leading to subjective and inconsistent marks and potentially incomplete disclosure to investors of unrealized losses on open positions. For example, earlier this year, Toronto Dominion Bank announced a $94 million loss related to credit derivatives that had been incorrectly priced by a senior trader. In an exchange model, with transparent pricing and broad market data distribution, such errors are much less likely to occur.

- Second, risk assessment information is inadequate, and risk management procedures are inconsistent across the market. Precise information on gross and net exposures is not available. The true consequences of a default by one or more participants cannot be measured – exactly the sort of systemic risk brought to light by the Bear Stearns and AIG crises, which caused major disruptions in the market. As Bear Stearns and AIG faltered, credit spreads for most dealers widened, volatility increased and liquidity declined. Intervention became necessary.

  Transparent market information combined with risk management protocols enforced by a neutral clearinghouse could have mitigated this outcome. Risk managers would have had accurate and timely information on their firms' positions, exposures and collateral requirements. Collateral to cover future risks would have been in place or positions would have been reduced. The clearinghouse and regulators would have seen and been able to manage concentration risks within a particular portfolio, and stress-test the consequences of a major default.

- Third, gross exposures for bilateral CDS transactions magnify systemic risk because a failure in the payment chain can spiral out of control.

  Our proposal goes beyond the plans of dealer owned clearing systems, which only address the needs of the inter-dealer market. As we understand it, non-dealers, who may account for nearly half of current trading volumes, would not directly benefit from trade novation under the dealer-owned model. Excluded participants also would reap little benefit from the clearinghouse's guarantee of performance. Settlement risk would be mutualized for some, but not all, trades.

Our proposal, which is open to both dealers and their customers, offers scalable, efficient trading and clearing mechanisms to market participants and brings price transparency to the entire market. Our systems include nearly instantaneous trade confirmation.

Our long experience is a tremendous asset in the fight against systemic risk in the CDS market. The CME Clearinghouse currently holds more than $100 billion of collateral on deposit and routinely moves more than $5 billion per day among market participants. We conduct real-time monitoring of market positions and aggregate risk exposures, twice-daily financial settlement cycles, advanced portfolio-based risk calculations, monitor large account positions and perform daily stress testing. Our clearinghouse has a proven ability to scale operations to meet the demands of new markets and unexpected volatility. We have the scope and scale to protect against the risks of the CDS market, with our industry-leading financial safeguards package of over $7 bilion and our long track record of effectively managing high-risk scenarios, such as the recent failure of Lehman Brothers. Additionally, clearing CDS products under the existing structures that we use for our primary futures markets will protect customer funds in segregated accounts that are afforded special protection under the Bankruptcy Code.

The CDS market requires product structures, rules and regulatory oversight that are suited to the needs of all participants. That may not occur if centrally traded and cleared credit products must be fitted within regulatory frameworks that were developed for different markets or to meet different policy goals. We are working with the New York Federal Reserve, the CFTC and the SEC to find a way quickly to bring our solution to market. We are encouraged that the regulators are highly motivated to contain the problem without delay and that cooperation among them will eliminate the jurisdictional and regulatory uncertainties that might otherwise delay a solution.

I thank the Subcommittee for the opportunity to share CME Group's views, and I look forward to your questions.