

**Craig Donohue's Keynote Address
"Risk Management Now"
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Good morning and thank you very much for inviting me to be with you here this morning.

I want to congratulate you on yet another outstanding event and outstanding attendance this year. It's great to be a co-sponsor of this event and to have the opportunity to be a participant here with so many of our customer and industry participants that are quite important to us.

I'd like to spend a few minutes just talking about our FX business and why we're excited about it – talk as well about CME Group and our vision and global strategy for growth. And then if I've got some time at the end, share with you at least a little bit of cursory insight into financial services, regulatory reform and at least some of the basic principles that we're trying to advance in that debate and in Washington.

I've been really excited about FX for a number of years and the growth opportunity that we've had in foreign exchange markets. Foreign Exchange is a really interesting product for us because we are a global exchange. As I think most people recognize we've got a very diverse set of global benchmark programs that cut across not just foreign exchange and rates but equally energy, commodities, equities and other

product categories as well. But foreign exchange is one of the things that really helps us to further globalize our business because it is such a global market and there's demand for foreign exchange products and services worldwide. We operate in more than 85 countries in terms of trading access and more than 150 countries in terms of other products and services that we offer. FX fits very neatly into that and is an important part of how we intend to further globalize our own business.

One of the things that has been really interesting is, you know better than I, the tremendous amount of innovation and change and growth in foreign exchange markets. FX has truly evolved into a major tradable asset class and we've seen a lot of interesting trends in recent years with the growth of algorithmic proprietary trading operations in foreign exchange markets, the tremendous explosion of growth associated with the introduction of prime brokerage services in FX.

It's become largely an electronic market, and yet at the same time it's a tremendously diverse market in terms of geography, the number of venues on which you can trade and the central limit order book markets. As a result, all of us have had to make very substantial adaptations in our own business models and processes that we use. But I think as an industry, we've done a phenomenal job in accommodating that growth and accommodating that change. And I'm excited about the potential for this market in the future as we see continued tremendous change and growth in global markets, emerging

markets, and convergence between the major currencies, and ultimately what we've previously regarded as emerging market currencies.

One of the things that I think is interesting in the last 12 months in particular is the recognition of the value of central counterparty clearing services beyond just the listed market. There's a lot happening, as everyone appreciates – the business model has changed, a lot of the business pressures have changed for people who are using these markets through prime brokerage services arrangements. And obviously we're hearing a lot from our customers about the value of the safety and soundness that can be provided if done properly by a central counterparty clearing organization.

We have, as well, as I think people recognize, a lot of intense scrutiny and focus in Washington among policy makers and legislators, if not also regulators, with the idea that perhaps more of the trade that's done in the over the counter market should be traded on exchanges or cleared on central counterparty clearing systems. And I'll talk in a minute at the end about our views on that. But, apart from legislative and regulatory initiatives, we obviously think that we have the ability to partner with people who are using these markets in a way that can actually offer them additional security, additional safety and soundness, as well as efficiencies in terms of central counterparty clearing systems. And so we're working very closely with our FX customer base to try to determine how best to do that.

I want to take a moment to recognize our outstanding FX team led by Derek Sammann. We've got a number of people here from CME Group, but this team I think has done an outstanding job in the last couple of years in really helping us better serve your needs, helping us grow and expand our own products and services, and we're quite proud of what they've accomplished. I'm also proud to see that we've got a number of important CME alumni here who have also helped us along the way, prior to Derek and his team joining us. And together over the last few years you've seen a tremendous growth in our market in terms of the notional value of liquidity that we offer on a daily basis. In five years we've gone from \$40 or \$50 billion a day to more than \$100 billion a day. So we're very proud of that. And we're really proud of the fact that our team is also continuing to work with you to develop these innovative solutions and to try to find ways in which we can add value, as I mentioned, in terms of the OTC markets and how we can better meet your needs.

We have a really broad orientation on this whole topic of OTC clearing and I thought I would share with you where we're going in the future, both with respect to that as well as globalization. I think most people in the audience have a high degree of familiarity with central counterparty clearing systems, but we're really proud of the fact that, as one of the largest central counterparties in the world, we have an unblemished track record of customer protection. We're a very large scale player in central counterparty clearing services. We hold approximately \$110 billion of collateral on any

given day. We have a twice daily mark-to-market system where we move anywhere from \$10 to \$15 billion a day to and from market participants.

That's a system that has withstood tremendous pressures and market shocks and systemic risk events for a large number of decades without any problem. And we think it's an excellent model, not just for the listed markets. Obviously, we're just one of many different central counterparties that do a very fine job. But we are being successful, significantly so, in extending the central counterparty clearing concept into the OTC markets in a number of different ways.

Some of you might be very familiar with CME ClearPort. ClearPort is an over-the-counter clearing service that was first developed in response to the energy crisis and the Enron bankruptcy. What we began to do was synthetically take in energy swap contracts and convert them into futures contracts. Then have the clearing house be the guarantor of performance versus the trade counterparty. Over the last seven years that's grown to be quite a substantial business for us.

We actually clear more than a half a million contracts on a daily basis through CME ClearPort in oil, gas and power contracts and we're now in the process of extending that very broadly across all of the major asset classes that we provide services in. We have initiatives in credit default swaps, interest rate swaps, agricultural commodity swaps, and the energy sector. More recently, we're working to develop our capabilities

to afford you the ability to use OTC Clearing services in the FX market. We're planning to introduce a broad capability there, cutting across all the major products in the FX markets: spot, forwards, swaps, options and the foreign exchange futures and options that we currently provide clearing for. We're hoping to be operationally ready with that by the end of this year and to begin clearing next year in those areas. So again, I congratulate Derek and his team for that. CME ClearPort will ultimately be the means by which market participants can interact with us for clearing only services.

I want to take a moment to say that one of the things that has been a useful learning process for us over the course of the last year and a half is our trying to become more focused on what the customer is looking for and what the market needs. We have a proud, long history of being very innovative, but sometimes we tended to innovate from inside and propose things that the market may not really be ready for or looking for.

So one of the major shifts that we have made as an organization is to move away from thinking about offering execution services in these markets and to focus more on post trade, clearing processing, risk management and central counterparty clearing services. One of the things that we've heard very clearly from our customer base is that's where they think we can add value, if we can work with market participants in terms of the service offering, the governance structure, the pricing structure, the market structure. I think people believe strongly that we have a very compelling value proposition for them. So that's a major strategic shift for us, and one that I think is helping to build bridges and

build trust and rapport between us and the end user community. Hopefully you've seen recently we're making great progress on the CDS front for that reason, not just with buy-side firms, but with sell-side firms as well. So we're excited about that and I think that's going to be an important area of growth for us in the coming years.

The other major direction for us as an institution is globalization. We really do live in a very global world and we compete very much on a global basis. While our market share in the US is enviable, it's really kind of a misleading statistic because in the derivatives markets, as I think you will recognize, our main competitors in commodity and energy markets happen to be based in China, Japan and London. And our major competitors over the last decade in financial products like interest rates and treasury securities have been in Europe as well. So we're very oriented toward how do we continue to establish ourselves as a globally significant exchange.

And we have a variety of different ways in which we're doing that. First of all we've chosen to focus on foreign markets, emerging markets that we think have very compelling growth trajectories, well developed economies, and reasonably sophisticated and open financial market systems. So we become the single largest share holder in the combined Brazilian BM&F BOVESPA Exchange. It's the fourth largest exchange company in the world, and we're working with them to expand that market. We offer order routing and distribution services where we have the capability to bring CME Group customers to the Brazilian markets and reduce inefficiencies and frictional barriers to

participation in the market. That's been a huge success for us. In just five months we've become roughly 10 to 15 percent of their average daily volumes. We have similar types of partnerships with other leading exchanges in Korea and in Malaysia. We're working on a wide variety of different opportunities. So that's one way in which we can attract more customers into our core products, provide access to foreign markets through the CME Globex platform, but also to work together on joint product development and providing clearing and risk management efficiencies for the benefit of our customers.

The other thing that we're doing is de-concentrating CME Group as a Chicago-centric company. In the last couple of years we've been building out our sales and marketing teams in Europe, throughout Asia, more recently in Latin America. And that's an important part of our growth, so that we can have more proximity to our customers, better relationships with our customers and new business development opportunities.

We also have a number of telecommunications hubs which provide access points to the CME Globex platform from eight or nine different international locations. That's another facet of how we're looking to further establish ourselves in the global markets. We fundamentally believe that while the growth opportunities in the U.S. and Europe are still going to be very robust for us in terms of our core business, we want to make sure that we have the opportunity to participate in what we think will be much higher growth rates in these emerging markets like Brazil, Korea, China, India, and some of the other places that I mentioned.

Now I would like to touch very briefly on some of the things that are going on in Washington and comment about some of the views that we have. One of the things that is fundamental is that the futures and options markets, the listed exchange markets, the central counterparty clearing systems, functioned flawlessly during the economic and financial markets crisis. There is a great track record of success on the part of the exchange and central counterparty providers in the financial services market. In CME Group's case, we were able to provide liquidity every day. We were able to provide efficient markets. We had an unblemished functioning of the clearing house, even though we were dealing with the financial troubles of Lehman and Bear Stearns and AIG, we were able to continue to provide a high level of assurance for the completion of transactions for all market participants. Not a single customer suffered any kind of loss as a result of a default or failure by a clearing member firm at the CME Clearing House. So an important fundamental recognition for people in Washington is that these markets function really, really well.

Correspondingly, as I mentioned earlier, there are a lot of people who think that the OTC markets didn't function very well. I'd just like to say, I think some of that is actually quite exaggerated. It's true there were some complexities and problems, particularly in the credit default swaps market, but I think as many of you rightly recognize, in foreign exchange and rates, for example, the market actually did function quite well.

For that reason, we're opposed to government and regulatory proposals to mandate exchange trading of over-the-counter derivatives instruments. We're also opposed to the mandatory clearing of OTC transactions that are standardized. You might ask, why would you be opposed to things that if they were to happen could be beneficial for you? We've really prided ourselves, I think, on taking the intellectually honest view of these things in Washington. We just don't think that government is in the best position to dictate. I think that the services we provide are compelling enough, and our commitment to partnering with market participants to find the right way to offer those solutions is really the better course. What we've encouraged legislators and policy makers to do is really to think about what would be good incentives that would create an environment where people would benefit from using central counterparty clearing services.

The other thing that is probably concerning to everyone is the reaction to what should be a tradable asset class. What kinds of market participants should be eligible to trade certain kinds of products. For us, this has been a major area of emphasis. You've seen a lot of people reacting to price spikes in the crude oil markets or even in the agricultural commodity markets and saying, well, maybe we've got too much speculation in futures or derivatives markets. Maybe we have too many non-commercial players. Perhaps we should have less participation by swap dealers or less participation by index funds. Perhaps we should change the tax treatment for professional traders so that we don't encourage so much speculation. We've even had people propose higher margin

requirements as a way of regulating behavior and participation in the markets.

Obviously, we're strongly opposed and don't favor any of those proposals.

I'll just say very briefly that, in the more than year since that debate has been raging in Washington, there have been numerous economic studies and data that have been published. And not a single reliable study has indicated that speculators, index funds or swap dealers and other sophisticated professional investment players in the market have contributed in any way, shape or form to price spikes in these markets. So the empirical evidence and the economic analysis are very squarely on our side. Nevertheless, Washington is a political place and you have certain people who continue to advance a very political agenda. But we are working hard to try to limit that type of behavior, not to tolerate discriminatory access to free markets by legitimate market participants.

The last thing that I would just say as a guiding principle for us, without getting into too much detail, is that as everyone I'm sure recognizes, while we support strong regulation and high standards for the financial services market, and there can be no doubt or no mistake about that, there are some gaps that need to be filled and there are higher standards needed in various parts of our financial services regulatory framework. At the same time, we really do have to be very careful. This is a global market and we do have the potential to take a very narrow view of what we can accomplish in the U.S. and find ultimately that market participants are able to seek alternatives both in the over-the-counter markets as well as in foreign markets.

We have a very diverse economy, so we take for granted the significance of the financial services sector in the U.S. As you know, most other jurisdictions are trying to build their financial infrastructures; they're trying to build their financial market systems. And they're very cognizant of how to position their own regulation and their own regulatory frameworks and standards so that they can be increasingly competitive and on an accelerated basis achieve the growth in their own financial markets. So we have to be really cognizant of that.

We've gone through a period over the last 12 months where there's been a great deal of political reactivity, as there often is when we've had a crisis or problems in the market. But I'm hoping that we can get to a place where we can actually do the right thing, fill the gaps, raise the standards where they need to be raised, but at the same time be cognizant of the world around us, what other central banks and markets, regulators and governments are doing so that we have a level playing field. Not just for exchanges but for banks, financial intermediaries, other market participants who, again, do have the ability to compete on a global basis.

So those are some of my thoughts. I want to thank everybody for being patient this morning. Thank you very much for letting me be with you today.

For additional information, please contact our FX team at fxteam@cmegroup.com or at 312.930.3148.