CME Group

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Thank you for the kind introduction. It's a pleasure to be here today.

Those of us in this room know it's a critical time for the global financial markets. The U.S. is climbing out of a recession, while the deficit hangs over the economy injecting uncertainty into the sustainability of the recovery. Europe continues to seek answers to the fiscal crisis here. In addition, we're starting to see a slight downturn within the BRIC economies, which has been a driver of the global market activity the last few years.

On top of this, financial markets have had their share of issues over the last year. Whether stemming from the LIBOR scandal, global regulatory uncertainty, as well as market infrastructure developments not witnessed previously.

Without a doubt, we find ourselves in a challenging economic and regulatory environment. Everyone has been affected by various global economic challenges that have existed post the Lehman crisis. Match that with technological challenges and the waning trust in our industry brought on by dubious activity and even outright fraud– and you can begin to understand the new environment for trading as well as clearing, and their role going forward in the market place.

**The Role of Risk Management**

I want to start by discussing something that is at the center of all of this. Why is there a need for confidence in the marketplace? Why does it matter to an asset manager in London or a farmer in the Midwestern United States that China's economy is slowing down? Why do market participants seek technology to trade faster, even though we've experienced speed bumps in some equity markets?

The answer to all of these questions is risk management, and the economic benefits this provides. Every business faces risk. We all recognize this simple fact. For an energy company or a hedge fund, the risks may appear to be quite different.

But at their core, those businesses and others face the same dilemma; the risk of losing income and/or profits due to either loss of value, operational disruptions or an increase in input costs.

Derivatives markets are a critical tool in price discovery as well as risk management for asset managers, hedge funds, farmers, and many other kinds of investors. We need look no further than their wide acceptance and use on an international scale by institutions of all kinds. CME Group has focused its products and services division on the customer. In order to effectively accomplish this, we created teams focused on banking, intermediaries, commercials, proprietary trading firms, hedge funds, and asset managers.

According to the International Swaps Dealers Association, 92 percent of the world's 500 largest companies have reported making some use of derivatives – including futures and options like those offered at CME Group.

Of these users, more than 90 percent took advantage of derivatives to manage interest rate risk, 85 percent reported using derivatives to manage currency risk, and 25 percent accessed derivatives to manage commodity price risk. Moreover, academics widely believe that the corporate use of derivatives generally works to increase shareholder wealth.

By helping countless businesses and investors manage risk, the benefits of derivatives markets are linked, directly and indirectly, to economic growth.

In last year's U.S. Presidential campaign, much of the discussion focused on which candidate and which political party would grow the U.S. economy more. In countries across Europe too, we've seen recent elections where there was plenty of debate about which candidate would be best for the long-term economic prospects of a nation. And without question, government has a role to play in the state of an economy.

But there is something that has far greater influence over a business's ability to hire workers and grow than which political coalition is in power.

And that is a business's ability to manage its risk, control costs and invest for the future.  When successful in these efforts, one important result is the ability to hire more employees, and keep economies moving.

But of course there are other results.

By managing risk properly, airlines can better control their fuel costs, farmers can better manage their input costs which may allow them to plant more crops, banks can lend to more businesses, farmers and institutions.

The elections in Greece last May provide an example. After the results of the May 6 election, where power was splintered amongst several political parties, the euro's value against the U.S. Dollar fell for seven consecutive days. This affected any company doing business in Europe. The availability of deriviatives allows businesses around the world to lock in the lower value of the euro for a lower cost of goods they might have shipped in the future. European companies could, in turn, lock in a value before the euro's value fell further.

But the effects went beyond currency. The shakiness of the euro during this period also contributed to lower gold, copper and crude oil prices because those commodities are denominated in dollars. If you're an energy company or an airline, or a construction company – and if you're an asset manager, this affects the price you pay for commodities critical to your business or to your clients.

And those who watch commodities markets know very well the drought issues the United States experienced in the last year – the worst drought there since the 1930s.

This drastically reduced production levels of corn, wheat and soybeans, and has resulted in record prices in those commodities.  A derivatives exchange like CME plays a crucial role in helping companies manage the price they pay for grain, and allows them to pass fewer costs on to consumers at the grocery store. At the same time, farmers, ranchers and grain elevators look to exchanges like ours to serve as a safety net by enabling them to lock in a price for, say, corn.  That allows them to increase their gains or limit their losses, and continue planting the next year.

And it doesn't just apply to agricultural commodities.  Any company that depends on the use of materials or instruments with fluctuating prices, benefits from managing this risk – and that's exactly what derivatives markets allow companies to do.

And when companies can manage risks associated with – unexpected, but inevitable events – it's not just the individual or the corporation that thrives. The economic health of nations is helped considerably by an industry's ability to keep itself afloat in even the most turbulent of times.

**Emerging Markets**

Now, the examples I gave of how markets can help companies manage macroeconomic and geopolitical events came from the U.S. and Europe – established economies, which have long known the benefits of financial exchanges. My company, CME Group, began in 1848 as a place to establish fair, transparent prices for grain.

I stated at the outset, it's not the U.S. or Europe or Japan or Hong Kong that have been driving growth in recent years. It is emerging economies like China, India and Brazil. And more recently, countries like Mexico and Indonesia.

The epicenter of global economic growth and activity has been shifting from the developed nations to the emerging economies – with emerging markets experiencing accelerated growth through the developed markets via product or technology sharing as well as organizational skills sets accumulation.

Economic growth in emerging markets has been driven by the fundamental productivity of these nations' vast populations, resulting in strong advances in GDP. This trend has resulted in an international re-allocation of resources from the developed to the emerging market economies. Capital and commodities flow across political and geographic boundaries with reasonable ease. However, as a cautionary note, this is not always the case within the emerging markets.

Emerging market economies have accumulated large stores of foreign reserves, often denominated in U.S. dollars and invested in Treasuries.  Thus, emerging market policy makers call for fiscal restraint on the part of the developed economies to protect their investments.

But developed market policy makers are faced with slow growth and high unemployment. Thus, policy makers implement loose monetary and spending policies in response.
So there are conflicting demands from emerging and developed markets. Not to mention that they are increasingly competing for the same commodities.

Technology and transportation will play a large role in the global re-allocation of assets. As middle classes in places like China and India continue to grow… How do we enhance the efficiency of the farming industry and grow the food supply? How do we ship oil or natural gas across continents and across oceans more efficiently?

But underpinning those issues is the role of exchanges. The emerging countries with a strong and growing system of financial exchanges – and the government leadership who provide the right environment for those exchanges to flourish – will find answers to these questions, and benefits from continued growth.

Some of the fastest growing economies of the last decade have been helped along by a healthy exchange environment. Brazil and their BM&F Bovespa Exchange is a good example. Its benchmark iBovespa stock index has increased nearly 500 percent since 2003. And it is a country with an advanced regulatory framework. Though some of the country's growth has slowed lately, these are factors that have continued to attract foreign investment.

Overall, exchanges in developing economies lead to better stability in underlying markets, better price discovery, less dependency on government controls, economies more reflective of supply and demand, and better infrastructure development.

On this last point, India provides an example of where a more developed market environment can help. India has seen better than 8 percent GDP for most of the last decade. Yet it still suffers from inadequate infrastructure. As high as 60 percent of India's crops spoil before they reach the market. The Wall Street Journal recently wrote that "in the world of perishable goods perishing, India has few rivals."

The good news is that this presents more opportunity for growth. In fact, the country's chief economic adviser told CME Group's Global Financial Leadership Conference in November that infrastructure is the biggest opportunity in India for foreign investment.

**Partnerships/CME Europe**

It is largely because of the changing economic landscape and the opportunities in less developed markets that my company, CME Group, last year announced that we have applied to the FSA to create a London-based derivatives exchange, CME Europe. As the head of this proposed new exchange, I can tell you that we're excited about the opportunities in underserved and under-developed markets, and to align more closely with market users in Europe, Asia, Middle East and Africa. We expect CME Europe to open in mid-2013, pending regulatory approval, with a full suite of FX products, which we plan to expand into a multi-asset class offering over time.

Exchanges today must seek to have a global footprint. But it's more than that. The examples I spoke of earlier with the drought and Greek elections – these have applications in developing economies too. Through effective risk management, firms in these countries, or looking to invest in these countries have an avenue to provide better infrastructure, create jobs, and make efficient storing and distributing of commodities a reality.

For our part, we're committed to providing the scalability and leverage of our developed technology and regulator platforms to market participants looking to access new markets.

This also includes CME Clearing Europe, our clearing solution for customers to take advantage of the U.K. regulatory environment, law and time zone. CMECE provides a European clearing house for customers working under the U.K. regulatory environment and English law and provides services tailored to non-U.S. market practices.

Though we're a global company, we know that we best serve local needs by continuing to develop our local presence. This means actively participating in the community, maintaining our long-term relationships while also getting to know potential and new customers.

CME Europe is just the latest example. For decades, we've looked for untapped opportunities across the world, and have participated in the community via strategic partnerships with exchanges around the globe.

This includes our partnerships with Bursa Malaysia Derivatives in Kuala Lumpur, our 50 percent equity stake in the Dubai Mercantile Exchange, cross-listing agreements with BM&F Bovespa in Brazil, the Mexican Derivatives Exchange, and the National Stock Exchange of India. As well as strategic partnerships with the Johannesburg Stock Exchange and the Osaka Securities Exchange in Japan.

This reflects the shift in global dynamics. It shows that the products and services we have developed are regarded as applicable beyond the borders of the United States to serve developed and developing economies throughout the world.

It also reflects the interconnectedness of the global economy today between developed and developing economies.

**Conclusion**

Derivatives are a critical tool for market participants across the globe as they help companies to manage and transfer risk. This makes it critically important that we all work together – regulators, market participants and exchanges – to carve a plan forward for businesses and in any part of the world to manage their risk on exchanges. It manifests itself through capital commitment, continued infrastructure development, research & development, job growth and ultimately, a healthy economy. We are now witnessing that metamorphosis within the emerging markets of the world.

It's true we're faced with a unique blend of challenges today, but with challenges come new opportunities for offering effective price discovery and risk management solutions. Our industry has a long history of emerging from challenging times stronger and more necessary than ever. I believe that is happening again right now.

Thank you for your time today.