

**Bryan Durkin Speech to NGFA Country Elevator Conference
Tuesday, December 11, 2012
Hilton Omaha/Century Link Center
10:00 a.m. CST**

Introduced by John Graverson, Merchandizing Manager, Ray-Carroll County Growers (Missouri), and member of the NGFA's country elevator committee.

Thank you, John, for that kind introduction.

And thank you all for the invitation to address this conference again. It really is something I've been looking forward to. CME Group has enjoyed a longstanding, productive relationship with the NGFA. When it comes to our agricultural markets, the voices that NGFA represents are always ones we want to hear.

In turn, we have been pleased to provide the kind of risk management tools that farmers and grain elevators have relied on for more than 150 years. We're very proud of that fact, and look forward to 150 more.

When I addressed this conference last year, it came at a very difficult time for our industry, and for those of you in this room. There are always a lot of concerns on the minds of grain producers in the winter months as it relates to hedging and futures markets. But last year provided a level of uncertainty that none of us want to see again. And though news came last week that nearly all MF Global customer claims have been resolved, we know that some of you still today are waiting for the return of funds after MF or PFG. However, one year later, I'm happy to say we've taken many important steps in creating safer, more efficient markets than what existed before the MF Global failure.

I'd like to use my time today to go over those steps, and the critical need to re-establish customer confidence that was damaged or lost in the wake of MF Global and Peregrine Financial. I would also like to share some measures still underway to improve customer protections. Overall, I am here to assure you that CME Group and the entire industry are committed to a financial system that has more transparency and more accountability for its participants.

Lost Confidence

It is no secret that we're facing an uncertain environment in financial markets right now. The continued implementation and rule-making that are part of the Dodd-Frank reforms are not yet totally clear – we can see this with things like the court decision overturning the position limits rule just a couple of months ago. Markets of all kinds, not to mention all of us as individuals, are anxiously awaiting the outcome of the fiscal cliff debates. The threat of the unknown continues to hang over all world economies and businesses and continues to drive market uncertainty. Those of us in the futures industry – including all of you – have had our own special set of challenges over the last year.

Last December, I talked with you about the unprecedented failure of MF Global. Then, last summer, the unthinkable happened again. Peregrine Financial's founder admitted he had been stealing customer money for decades.

The segregation of customer funds has been sacrosanct since the 1800s. One transgression would have been unacceptable and yet it happened twice in a year's time. Rightfully, lawmakers were swift to intervene – calling for several hearings to determine what legislative remedy could be employed to prevent malfeasance. CME Group was present at many of these hearings.

While we've worked with Congress and the industry throughout this process, and will continue to do so, we didn't require hearings to know something needed to be done to better protect customers. In the initial phases of this crisis, the solutions were about returning money to customers, which required swift action. Those are the actions I spoke about last year at this conference – transferring 15,000 accounts and guaranteeing \$550 million to the MF Global Trustee so that you and other customers got as much of their property back as possible, as soon as possible.

But since then, we've turned to long-term solutions, which deal with issues that go beyond the specific case of MF Global. Confidence in our markets was severely damaged. Any solutions now must be aimed at renewing that confidence.

Our market participants need, expect and deserve a marketplace they can rely on for price discovery and risk management. Restoring confidence in our marketplace and protecting the customers who use our futures markets is essential, and it's our first priority. Every link in the chain must be as strong as the next. And, we all must work together to develop non-legislative solutions to today's problems.

So while it is without question that we need real, industry-wide protections and work together to find realistic solutions that will drive more accountability and more transparency, without destroying the markets we have long relied on to keep businesses moving.

That means that CME Group along with Congress, federal regulators, and industry groups like NGFA must work together to carefully weigh the costs and benefits of even the most far-reaching proposals that might enhance protections in our marketplace. That's what we're working toward.

Though there is more work to be done, I am pleased to report that one year later we have made significant progress. Some of these solutions are already operational. For example:

- All FCMs must now file daily reports on customer segregated funds. We've received over seven thousand such reports since May 1 this year.
- We also require bimonthly SIDR reports – this shows where and how the customer funds are invested. We've received 450 of these submissions since July.
- There are more frequent spot-checks. We've conducted more than 50 of these surprise reviews since May as well.

- And there's the Corzine rule, which requires CEO or CFO accountability for any disbursements over 25% of the firm's excess seg funds.
- New rules providing electronic confirmations of firm balances today: Confirmation.com allows direct, electronic submission of third party bank balances concerning segregated funds in NFA and CME regulatory examinations. This tool uncovered the PFG fraud.
- We also finalized a new rule announced in August that will require FCMs to provide their Self-Regulatory Organization's direct, online, read-only access to account balance information from the banks holding seg funds.

Additional proposals may include an insurance option. Last week, we announced a joint study between ourselves, FIA, NFA and the Institute for Financial Markets to examine various models for insurance in the futures industry.

However, because there are approximately \$157 billion of seg funds held in our industry, we are concerned that the cost of premiums under such a proposal would be extremely high. Therefore, we believe it is likely that any insurance solution would need to be offered on an optional basis to those who want it, as opposed to a mandatory rule.

Further, CME Group has advocated for changes to the U.S. Bankruptcy Code to further protect customers like all of you in the case of a future failure. Remember, the shortfall in customer segregated funds occurred only in regard to funds under MF Global's and PFG's control. The customers' funds held in segregation at the clearing level at CME and other U.S. clearinghouses were intact.

However, the clearinghouses were not able to avoid market disruptions by immediately transferring those customer positions and any related collateral because of limitations under the Bankruptcy Code. We have proposed that Congress amend the Bankruptcy Code to permit clearinghouses to transfer customer positions of a failed clearing member promptly, to another stable clearing member.

Farmer Fund

Overall, one of the most important steps we've taken was creating the \$100 million Family Farmer and Rancher Protection Fund, designed to provide further protection of customer segregated funds for U.S. family farmers and ranchers who hedge their business in CME Group futures markets.

Under the fund, farmers and ranchers hedging on our exchange are eligible for up to \$25,000 per account in the case of losses resulting from the future insolvency of a clearing member or other market participant.

Farming and ranching cooperatives are eligible for up to \$100,000 per cooperative. If losses in a future failure total more than \$100 million, participants will be eligible for a pro-rata share of the fund, up to \$100 million.

The fund has already proven to be a valuable layer of protection as it applied in the case of PFG. We are currently in the process of paying more than \$2 million in benefits to nearly 200 farmers, ranchers and cooperatives in 27 states who used CME Group markets and suffered losses in the failure of PFG.

These include people like many of you here who have faced a lot of challenges this year. The fund helped one customer who was hit by MF Global, PFG, the drought and Hurricane Sandy.

It also helped a customer who would not have been able to make his balloon payment at the end of the year on his operating loan if not for the \$25,000 the fund provided.

In fact, after the PFG trustee sent out the first wave of funds to customers, the farmer fund helped 70 percent of qualifying farmers get back 100 percent of their lost customer seg funds.

This is the kind of help the fund was created to provide. But as helpful as it's been, our aim is a market environment where it is never necessary.

And as I hope you can see, we are making progress. But undoubtedly, more work remains.

All of us must continue to work together as an industry to use the lessons from the past year. Our most important work is still ahead. We must continue to take responsible action to restore confidence in the derivatives markets that you rely on for your risk-management needs. At CME Group we are working hard to reassure our customers and reestablish confidence in the marketplace. Because we understand that you're not just looking to us to help manage your risk. You are also looking to us to manage your trust.

A Final Word

We never would have chosen to have the events of the past year happen, but they did. And, they uncovered some areas where we could enhance customer protections, which are being, or have been addressed.

As those who work in agribusiness and rely on futures markets, you were some of the hardest hit by the unprecedented events of the past year. Our markets in Chicago were formed because farmers needed a central place to manage the risks of doing business, and guard against wild fluctuations in price and demand for their product.

We have a special tie to agriculture, especially here in the Midwest. It's in our company's history and it's part of our culture. And it's because of this that we understand that efficient and safe markets are absolutely essential to your business. That is also why restoring your confidence is our number one priority.

Our markets are safer today than they were before MF Global. Customer accounts have more protections. There is more transparency and accountability. We've made progress, but we won't rest on our laurels. At CME Group, we are committed to working with you and with others in our industry to continually improve the effectiveness of our markets; and reassure all market participants that they are trading in a more secure place.

Thank you very much for your time. I'm happy to take any questions you might have.