



Via electronic submission to: govsecreg@fiscal.treasury.gov

July 6th, 2020

Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Re: Development and Potential Issuance of Treasury Floating Rate Notes Indexed to the Secured Overnight Financing Rate [Docket No. TREAS-DO-2020-0007]

To whom it may concern:

CME Group Inc. (“CMEG”)¹ is grateful for this opportunity to respond to the request for information (“RFI”), *Development and Potential Issuance of Treasury Floating Rate Notes Indexed to the Secured Overnight Financing Rate* (“SOFR”).² We commend the Department of the Treasury (“Treasury”) for issuing the RFI; the issuance of any Treasury floating rate debt indexed to SOFR would help foster the adoption of SOFR in the global financial markets.

CMEG offers trading for Treasury securities via its BrokerTec platform as well as for derivatives on Treasury securities via its Globex platform. CMEG works with our technology and industry partners to make sure new Treasury security instruments are available for trading whenever possible, such as the recent 20-Year Treasury security. In our experience, diversity of Treasury issuance in a predictable and consistent manner are often preferred by the marketplace and lead to a healthy ecosystem of market liquidity. With experience guiding our thoughts, CMEG is providing responses to the following questions posed in the RFI in the hopes they assist the Treasury during its evaluation of issuing a SOFR-indexed Floating Rate Note (“FRN”):

3. Security Structure

3.1 What are the primary considerations Treasury should evaluate when structuring a Treasury SOFR-indexed FRN? How would different potential security structures affect investment decisions by market participants, including with respect to activity in derivatives markets?

¹ CME Group offers futures and options on futures for trading through the CME Globex electronic trading platform on four separate designated contract markets: Chicago Mercantile Exchange Inc. (“CME”), the Board of Trade of the City of Chicago Inc. (“CBOT”), the New York Mercantile Exchange, Inc. (“NYMEX”), and the Commodity Exchange, Inc. (“COMEX”) (collectively, “the CME Group Exchanges”). The CME Group Exchanges offer the widest range of global benchmark products across all major asset classes based on interest rates, equity indexes, foreign exchange, energy, agricultural products and metals. Each of the CME Group Exchanges is subject to regulation by the US Commodity Futures Trading Commission (“CFTC”). All of the CME Group Exchanges are subject to the rules and regulations of the local jurisdictions in which they conduct business, including the European Securities and Markets Authority (“ESMA”) and the UK Financial Conduct Authority (“FCA”). CME Group also offers fixed income trading via BrokerTec and foreign exchange trading on the EBS platform.

Among the operating divisions of CME is CME Clearing, one of the largest central counterparty clearing houses in the world, which provides clearing and settlement services for exchange-traded contracts and for over-the-counter derivatives transactions. CME Clearing is a derivatives clearing organisation subject to regulation by the CFTC. With a range of pre- and post-trade products and services underpinning the entire lifecycle of a trade, CME Group also offers optimization and reconciliation services through TriOptima and trade-processing services through Traiana.

² Department of the Treasury, *Development and Potential Issuance of Treasury Floating Rate Notes Indexed to the Secured Overnight Financing Rate*, May 22, 2020, available at: https://www.treasurydirect.gov/instit/statreg/auctreg/Treasury_RFI_SOFR_FRN3.pdf



CMEG offers efficient risk management solutions through innovative derivatives products, including derivatives which reference SOFR. As CMEG developed our SOFR-based derivatives products, key items often raised by customers during the design process were a preference for CMEG to create products which had similar characteristics to other CMEG short-term interest rate products. Based on that customer feedback CMEG offers the following SOFR-based futures derivatives products, and options on those futures, for exchange trading and clearing.

- **One-Month SOFR Futures** are cash-settled, calendar dated, and based on the arithmetic average of daily SOFR values during the contract delivery month. Contracts are listed for 13 consecutive months. Options on this product are also available.
- **Three-Month SOFR Futures** are cash-settled, IMM dated³, and based on a business-day compounded SOFR per annum during contract reference quarter. Contracts are listed for 39 consecutive quarters. Options on this product are also available.

Through these product offerings, we provide risk management solutions and exposure to SOFR in a variety of choices, including by different interest rate accrual methods. SOFR futures have well established liquidity pools comprised of buy-side and sell-side market participants, and have seen their use case validated during the dynamic interest rates environments observed since their launch in May 2018.

	Year 1	Year 2
Global Participants	140	425
Avg. Daily Volume	14,000 Contracts (\$25BN Notional*)	43,000 Contracts (\$135BN Notional*)
Avg. Daily Open Interest	56,000 Contracts (\$172BN Notional*)	365,000 Contracts (\$1,288BN Notional*)
Peak Open Interest	151,000 Contracts (\$478BN Notional*)	612,000 Contracts (\$2,114BN Notional*)
CFTC Large Open Interest Holders	69	161

* Notional shown for illustrative purposes only, computed based on the value of an equivalent money market instrument with the same dollar-value-of-basis-point (DV01)

CMEG supports the efforts of the Treasury as they consider different security structure designs for a Treasury SOFR-indexed FRN, and our goal is to ensure the market has products available to risk manage whichever structure is ultimately chosen.

5. Market Transition

5.2 To what extent would Treasury's issuance of SOFR-indexed FRNs advance the overall market transition away from U.S. dollar LIBOR? How would different market segments (e.g., FRNs, derivatives, business loans, consumer products) be affected by Treasury's decision to issue SOFR-indexed FRNs? What effect would Treasury's issuance of SOFR-indexed FRNs have on the overall market transition away from LIBOR beyond that caused by current issuance of SOFR-indexed FRNs by other issuers? Please provide specific details of the cause and effect relationships you expect.

³ Refers to International Monetary Market (IMM) quarterly dates; where for a given contract, interval from (and including) 3rd Wednesday of 3rd month preceding delivery month, to (and not including) 3rd Wednesday of delivery month.



Ultimately, CMEG stands ready throughout this process to provide our clients choice of risk management solutions and liquid market places for US Treasury securities and derivatives. Treasury involvement in the SOFR ecosystem would, in our opinion, help increase market depth in SOFR-linked financial instruments and would further the efforts of the Alternative Reference Rates Committee (ARRC) and the Paced Transition Plan⁴. Private sector issuance of SOFR-indexed financial instruments continues to grow and the introduction of Treasury SOFR-indexed FRN's would likely act to further that growth. In addition, as market participants' liabilities correlated to SOFR grow, they could have a natural demand for Treasury SOFR-indexed FRN's which would be more useful to them than typical Treasury Bill rates.

We would be happy to further discuss and clarify any of the above responses with the Department of the Treasury. If you have any comments or questions regarding this submission, please feel free to contact Sean Tully, Senior Managing Director and Global Head of Financial & OTC Products +1 212 299 2340 or Sean.Tully@cmegroup.com.

Sincerely,

A handwritten signature in black ink, appearing to read "S Tully", written in a cursive style.

Sean Tully
Senior Managing Director and
Global Head of Financial & OTC Products

⁴ Alternative Reference Rate Committee Paced Transition Plan, available at:
<https://www.newyorkfed.org/medialibrary/microsites/arrc/files/paced-timeline-plan.pdf>