CME Group Q3 2011 Earnings Prepared Remarks – November 1, 2011

Craig

- Thank you for joining us this morning. I will discuss our record performance in the third quarter, and provide updates on a few of our strategic initiatives, before turning things over to Jamie to review the financials.

- During the third quarter, we delivered record top line results with revenue of $874 million, driven primarily by strong trading volume. Average daily volume was 14.7 million contracts, up 27 percent compared to the prior year.

- In addition, we delivered another highly profitable quarter with earnings-per-share of $4.74, our highest quarter ever excluding quarters with extraordinary items. Heightened expense focus contributed to our success, and is reflected in today's results along with our commitment to maintain expense growth below 5 percent in 2012 and into the future.

- Interest rate volume was strong in the third quarter, up 30 percent compared with third-quarter 2010. This included growth of 40 percent in Eurodollars and growth of 21 percent in Treasuries. Interest rate traders have moved more of their trading activity out the curve to the 3 to 5 year area, as the front end has been less active since the zero interest rate policy began nearly 3 years ago.

- In addition, we had record quarterly metals volume, up 77 percent, along with record quarterly equity index volume, up 44 percent. Overall, commodities volume remained impressive during the third quarter.

- Turning to other company initiatives, we continued to position ourselves for future growth through technology and product innovation. Examples include the initial rollout of the derivatives component of our multi-asset class platform to our partner in Brazil, our recent speed enhancements in our interest rate match engines, which reduced average response times by 50 to 75% and the expected launch of our collocation facility early next year. These serve as great catalysts to meet the growing demand from our customers. We went through several examples of product and technology innovation at our analyst day earlier this month, so, let me update you on a few other areas.

- We have begun to gain momentum in OTC clearing, as we have achieved record levels for clearing over-the-counter interest rate swaps and credit default swaps, including a daily record set on October 18 for interest rate swap clearing of $8 billion in U. S. customer volume cleared. To date since launching our OTC clearing services, we have cleared over $83 billion in OTC customer volume, including $72.7 billion in IRS and $10.6 billion in CDS, making us the leading OTC clearing service by U.S. customer volume. While some clients remain in testing mode, others have moved to production mode, and other potential users of either our OTC offerings or exchange traded offerings have taken notice.

- Recently, we began clearing Euro-denominated interest rate swaps. The new Euro-denominated clearing offering expands our existing U.S. dollar-denominated IRS clearing service, providing OTC risk management opportunities for interest rate maturities in both currencies extending to 50 years. We will continue to further expand our IRS clearing service by year-end, with the addition of the British pound, Japanese yen, Swiss franc and Canadian dollar-denominated IRS. According to data from the Bank for International Settlements, these six currencies account for 94 percent of the vanilla IRS market.

- Looking ahead, we are pleased to have 15 clearing members with approximately 500 customer accounts actively clearing trades ahead of the Dodd-Frank clearing mandate, along with an additional 2,500 customer accounts in the pipeline.

- Next, I will briefly touch on the regulatory front. In general, we are pleased to have the position limits rulemaking process behind us. While we still have concerns about certain provisions of the rules, and the cost of industry compliance, as well as the risk that market participants will seek less burdensome alternatives and shift price discovery off-shore, we do believe the CFTC made significant improvements in the final rule based on industry comments. In particular, we publicly commended the Commission and staff of the CFTC for recognizing the need to establish equivalent position limits in the important spot month for physically-settled futures and cash-settled futures and swaps which are based on the daily and final settlement prices of the primary physically-delivered price discovery contracts. With the lone exception of natural gas, the CFTC's interim final rule will appropriately limit the risk of inter-market manipulation. We believe the risks mentioned earlier can be alleviated by updating deliverable supply calculations and appropriately revising spot month position limits in affected commodities – some of which, for example, NYMEX WTI and Henry Hub futures are approximately 5 and 15 years old respectively. We are working with commercial market participants and the CFTC staff to appropriately revise existing limits to better reflect current market conditions.

- Going forward, we believe our success will continue to be driven by our ability to foster innovation, improve our technology footprint, manage risk in our clearing house, and ultimately, to maximize free cash flow. As we navigate through this period of uncertainty, we remain steadfast in our approach and have a long history of success that we can build off of to allow us to maintain our position as a leading derivatives exchange. In addition to the strong recent performance of our core business, we are gaining momentum on the OTC clearing front and making progress in terms of clarity related to Dodd Frank.

- In closing, I'd like to briefly touch on where things stand with MF Global. Yesterday morning, CME's Emergency Financial Committee took emergency action under CME Rule 975 to limit all trading for customers of MF Global to liquidation only. MF Global has also been subjected to a bankruptcy petition by a SIPA trustee. Consequently, CME Group will no longer recognize MF Global or any of its divisions as a guarantor for purposes of floor trading privileges. Additionally, floor brokers and traders guaranteed by MF Global or its divisions may not access the trading floors.

- We also agreed to facilitate the transfer of open positions at the last settlement price at the request of customers and the re-margining of such positions at the transferee firm.

- Throughout the day yesterday, our team worked closely with the firm, public customers and exchange members to assist customers in establishing new accounts and dealing with open positions and market exposures. We recognize that yesterday was a very difficult day for all concerned. As is nearly always the case in matters like this, this is a very fluid situation involving complex legal, regulatory and bankruptcy related issues.

- Yesterday, MF Global Holdings Ltd., the parent company of our clearing member firm, and our clearing member, MF Global Finance USA Inc ("MF Global"), each filed bankruptcy. Additionally, CME has determined that MF Global is not in compliance with CFTC and CME customer segregation requirements. While we are unable to determine the precise scope of the firm’s violation at this time, we are investigating the circumstances of the firm's failure. We are working with the CFTC and will be contacting the trustee to facilitate the transfer of customer positions and a portion of the supporting collateral.

- We continue to work with MF Global, customers and members. All other CME clearing member firms remain in good standing.

- Given the ongoing regulatory and bankruptcy issues involved, we will refrain from making any additional comments or answering questions on this matter. I would ask that you please respect that during the Q&A session at the end of the call.

- At this point, I would like to turn the call over to Jamie, who will touch on the third-quarter financial highlights.

Jamie

- Thank you Craig and good morning everyone.

- We posted record revenue of $874 million during the third quarter, up 19 percent versus last year, while effectively controlling expenses, which were up 4 percent versus last year, and down $2 million sequentially. Third quarter average daily volume increased 27 percent to 14.7 million contracts compared to the third quarter of last year. This **significant** revenue generation, coupled with effective expense management, drove a 29 percent increase in operating income to $572 million. Operating margin of 65.4 percent, was the second highest quarterly margin ever, and highest on a GAAP basis, and was up from 60.4 percent in Q3 last year.

- The third quarter total average rate per contract was 77.9 cents, down 4 percent from third-quarter 2010. The rate per contract was also lower on a sequential basis due primarily to a 3 percent product mix shift towards financial products, which have lower average RPCs than commodity related products. In addition, we saw a negative sequential impact of higher volume discounts, as Q3 ADV increased 9 percent from Q2.

- Within market data and information services, revenue increased over 5 percent compared to the third quarter 2010. This was driven by the Dow index business, which had strong revenue growth during the quarter. In addition, we had a $1.9 million vendor audit assessment during the quarter. As a reminder, we previously announced that we have increased pricing for our market data by nearly 15 percent, which should result in approximately $25 million of additional revenue in 2012.

- Turning to Compensation and Benefits expense, this line item was $120 million, up over $2 million on a sequential basis. We saw an increase in our incentive bonus, based on strong results during the quarter. We increased headcount during the quarter, and as of September 30th, our total global headcount stands at 2,735. Based on the equity market dropping more than 10 percent during the third quarter, we saw a fairly significant reduction in our deferred comp balances of $4.6 million during the quarter, which reduced compensation expense. There is no bottom line earnings impact of this, as there is a corresponding $4.6 million reduction in investment income.

- Non-compensation expense of $182 million during Q3 was up slightly from a year ago, but down $4 million from Q2, mainly due to reduced marketing expense. Our team is very focused on expense discipline, while we also continue to invest in future revenue generating opportunities.

- In terms of our full year guidance for 2011, we expect full-year 2011 operating expense to total between $1.23 and $1.235 billion. Without the deferred compensation impact I mentioned, our operating expense in Q3 would have been $4.6 million higher. In terms of the higher Q4 expense our guidance implies, marketing related expense is likely to be $5 million higher due to two significant customer-oriented marketing events in Q4. Also, we will see the full quarter impact of recent hires and our mid September stock grant. Lastly, we expect higher professional fees based on some specific OTC initiatives and ongoing regulatory work. The other wildcard is the deferred compensation, which we mentioned and is offset by interest income. Certainly, the equity market has appreciated nicely since the beginning of the fourth quarter.

- Our Q3 effective tax rate was 42.3 percent. Included in that we had a negative impact from a deferred tax adjustment, basically offset by non-recurring positive adjustments. For the fourth quarter, we continue to estimate our effective tax rate will be approximately 42.5 percent. In addition, as many of you know, we have been working closely with the State of Illinois as well as other states related to our significant state tax burden. While we are hopeful we will be successful in reducing our state tax rate, we will not be providing any guidance on our expectations until we make a decision about our course of action.

- Capital expenditures, net of leasehold improvement allowances, totaled $34 million in the third quarter, driven primarily by $12 million of data center build out and equipment, and spending related to our new London office space. This brings us to $117 million of CAPEX during the first nine months of the year. We continue to expect total capital expenditures for 2011 to be $165 million.

- During the quarter we repurchased 590,000 shares at an average price of $263, and we have purchased over 800,000 shares since we received the Board authorization in May of this year.

- In summary, as you can see from our results, while generating record revenue we have been focused on expense discipline while continuing to invest in growth opportunities and returning capital to our shareholders.

- We will now take your questions - Please limit yourselves to one question and one follow up, so we can get to everyone. Given the number of analysts on the call, please expect us to strictly enforce this rule this quarter.