

**CHICAGO MERCANTILE EXCHANGE INC.  
AND SUBSIDIARIES**

**Financial Statements**

**For the Years Ended December 31, 2019 and 2018**

**CHICAGO MERCANTILE EXCHANGE INC. AND SUBSIDIARIES**  
**FINANCIAL STATEMENTS**  
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## **Report of Independent Auditors**

### **The Board of Directors and Shareholders of Chicago Mercantile Exchange Inc. and Subsidiaries**

We have audited the accompanying consolidated financial statements of Chicago Mercantile Exchange Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chicago Mercantile Exchange Inc. and subsidiaries at December 31, 2019 and 2018, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

March 13, 2020

**CHICAGO MERCANTILE EXCHANGE INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**  
(in millions, except share and per share data)

	December 31,	
	2019	2018
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 509.0	\$ 881.0
Marketable securities	58.0	46.2
Accounts receivable, net of allowance of \$0.9 and \$1.2	149.2	179.1
Other current assets	86.3	74.4
Due from affiliates	315.1	181.0
Performance bonds and guaranty fund contributions	37,077.0	39,455.5
Total current assets	38,194.6	40,817.2
Property, net	355.7	288.9
Goodwill	17.7	17.7
Intercompany loan receivable	19.0	25.0
Other assets	301.6	101.6
<b>Total Assets</b>	<b>\$ 38,888.6</b>	<b>\$ 41,250.4</b>
 <b>Liabilities and Shareholder's Equity</b>		
Current Liabilities:		
Accounts payable	\$ 39.7	\$ 26.5
Other current liabilities	204.8	180.4
Due to affiliates	47.6	89.1
Performance bonds and guaranty fund contributions	37,075.7	39,455.5
Total current liabilities	37,367.8	39,751.5
Other liabilities	422.2	188.4
Total Liabilities	37,790.0	39,939.9
 Shareholder's Equity:		
Common stock, \$0.01 par value, 1,000 shares authorized, 100 shares issued and outstanding	—	—
Additional paid-in capital	935.2	841.8
Retained earnings	217.6	521.5
Accumulated other comprehensive income (loss)	(54.2)	(52.8)
Total Shareholder's Equity	1,098.6	1,310.5
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$ 38,888.6</b>	<b>\$ 41,250.4</b>

See accompanying notes to consolidated financial statements.

**CHICAGO MERCANTILE EXCHANGE INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

(in millions)

	Year Ended December 31,	
	2019	2018
<b>Revenues</b>		
Clearing and transaction fees	\$ 1,272.2	\$ 1,400.4
Fees from affiliates	701.3	585.1
Market data and information services	160.5	156.7
Other	173.5	139.1
<b>Total Revenues</b>	2,307.5	2,281.3
<b>Expenses</b>		
Compensation and benefits	455.4	440.8
Technology support services	114.6	95.6
Professional fees and outside services	88.1	95.5
Amortization of purchased intangibles	—	0.3
Depreciation and amortization	110.9	89.3
Licensing and other fee agreements	151.8	149.6
Other	391.1	378.7
<b>Total Expenses</b>	1,311.9	1,249.8
<b>Operating Income</b>	995.6	1,031.5
<b>Non-Operating Income (Expense)</b>		
Investment income	627.9	634.0
Interest and other borrowing costs	(10.9)	(27.7)
Other	(517.0)	(507.8)
<b>Total Non-Operating</b>	100.0	98.5
<b>Income before Income Taxes</b>	1,095.6	1,130.0
Income tax provision	224.8	278.8
<b>Net Income</b>	\$ 870.8	\$ 851.2

See accompanying notes to consolidated financial statements.

**CHICAGO MERCANTILE EXCHANGE INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in millions)

	Year Ended December 31,	
	2019	2018
<b>Net income</b>	\$ 870.8	\$ 851.2
Other comprehensive income, net of tax:		
Investment securities:		
Net unrealized holding gains (losses) arising during the period	0.1	—
Investment securities, net	0.1	—
Defined benefit plan:		
Net change in defined benefit plan arising during the period	(6.7)	(15.3)
Amortization of net actuarial losses and prior service costs included in pension expense	4.8	2.6
Income tax benefit (expense)	0.4	3.6
Defined benefit plan, net	(1.5)	(9.1)
Other comprehensive income (loss), net of tax	(1.4)	(9.1)
<b>Comprehensive income</b>	\$ 869.4	\$ 842.1

See accompanying notes to consolidated financial statements.

**CHICAGO MERCANTILE EXCHANGE INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY**  
(in millions, except shares)

	Common Stock (shares)	Common Stock and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
<b>Balance at December 31, 2017</b>	100	\$ 787.2	\$ 457.4	\$ (35.5)	\$ 1,209.1
Net income			851.2		851.2
Other comprehensive income (loss)				(9.1)	(9.1)
Cash dividends to CME Group Inc.			(787.0)		(787.0)
Impact of adoption of standards update on tax effects related to accumulated other comprehensive income and revenue recognition			(0.1)	(8.2)	(8.3)
Stock-based compensation		54.6			54.6
<b>Balance at December 31, 2018</b>	100	841.8	521.5	(52.8)	1,310.5
Net income			870.8		870.8
Other comprehensive income (loss)				(1.4)	(1.4)
Cash dividends to CME Group Inc.			(1,175.0)		(1,175.0)
Net asset contribution from CME Group Inc.		31.8			31.8
Impact of adoption of standards update on tax effects related to leasing		—	0.3		0.3
Stock-based compensation		61.6			61.6
<b>Balance at December 31, 2019</b>	100	\$ 935.2	\$ 217.6	\$ (54.2)	\$ 1,098.6

See accompanying notes to consolidated financial statements.

**CHICAGO MERCANTILE EXCHANGE INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

	Year Ended December 31,	
	2019	2018
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 870.8	\$ 851.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	61.6	54.6
Depreciation and amortization	110.9	89.3
Intangible asset and fixed asset impairments	3.1	9.5
Deferred income taxes	20.8	(5.8)
Change in assets and liabilities:		
Net due to or from affiliates	(162.5)	65.2
Accounts receivable	30.3	(37.0)
Other current assets	(6.6)	18.5
Other assets	30.9	11.9
Accounts payable	11.3	2.4
Other current liabilities	(22.4)	5.9
Other liabilities	21.0	(10.3)
Other	(2.0)	0.2
<b>Net Cash Provided by Operating Activities</b>	<b>967.2</b>	<b>1,055.6</b>
<b>Cash Flows from Investing Activities</b>		
Cash received from contributed entity	7.2	—
Purchases of property, net	(150.3)	(79.7)
Sale of business venture	0.9	—
<b>Net Cash Used in Investing Activities</b>	<b>(142.2)</b>	<b>(79.7)</b>
<b>Cash Flows from Financing Activities</b>		
Cash dividends to CME Group Inc.	(1,175.0)	(787.0)
Receipts from bilateral loan agreements with CME Group Inc.	1,510.9	904.5
Payments from bilateral loan agreements with CME Group Inc.	(1,513.9)	(929.5)
Other	(19.0)	—
<b>Net Cash Used in Financing Activities</b>	<b>(1,197.0)</b>	<b>(812.0)</b>
Net change in cash, cash equivalents and restricted cash	(372.0)	163.9
Cash, cash equivalents and restricted cash, beginning of period	881.0	717.1
<b>Cash, Cash Equivalents and Restricted Cash, End of Period</b>	<b>\$ 509.0</b>	<b>\$ 881.0</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Income taxes paid	\$ 50.2	\$ 26.0
Interest paid	0.4	1.2
Non-cash investing activities:		
Non-cash net assets from contributed entity	24.6	—

See accompanying notes to consolidated financial statements.

## CHICAGO MERCANTILE EXCHANGE INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. ORGANIZATION AND BUSINESS

Chicago Mercantile Exchange Inc. (CME, the exchange or the company), a wholly-owned subsidiary of CME Group Inc. (CME Group), is a designated contract market (DCM) for the trading of futures and options on futures contracts. CME offers a wide range of products including those based on interest rates, equities, foreign exchange and agricultural commodities. Trades are executed through electronic trading platforms, open outcry and privately negotiated transactions. CME is also a derivatives clearing organization (DCO). CME offers clearing, settlement, and guarantees for all products cleared through the company and its affiliates. CME also provides clearing and other services to non-affiliated third-parties. CME serves as a swap execution facility, which is a regulated platform for swap trading, and serves as a swap data repository, which provides public data on swap transactions and stores confidential swap data for regulatory purposes.

On April 1, 2019, CME Group contributed the net assets of NEX Services North America (NEX Services) of \$31.8 million to CME. NEX Services North America provides shared technology and other administrative services to affiliates of CME Group. Financial results of NEX Services are included in the consolidated financial statements beginning on April 1, 2019.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation.** The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and include the accounts of the company and its majority-owned subsidiaries. All intercompany transactions and balances have been eliminated.

**Use of Estimates.** The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the consolidated financial statements and accompanying notes. Estimates are based on historical experience, where applicable, and assumptions management believes are reasonable under the circumstances. Due to the inherent uncertainty involved with estimates, actual results may differ.

**Cash and Cash Equivalents.** Cash and cash equivalents consist of cash and highly liquid investments with a maturity of three months or less at the time of purchase.

**Financial Investments.** The company maintains short-term marketable securities, classified as available-for-sale debt securities or trading securities. Available-for-sale debt investments are carried at their fair value, with unrealized gains and losses, net of deferred income taxes, reported as a component of accumulated other comprehensive income. Trading securities held in connection with non-qualified deferred compensation plans are recorded at fair value, with net realized and unrealized gains and losses and dividend income reported as investment income.

The company reviews its investments to determine whether a decline in fair value below the cost basis is other-than-temporary. If events and circumstances indicate that a decline in the value of the assets has occurred and is deemed to be other-than-temporary, the carrying value of the investments is reduced to its fair value and a corresponding impairment is charged to earnings.

**Fair Value of Financial Instruments.** The company uses a three-level classification hierarchy of fair value measurements that establishes the quality of inputs used to measure fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments is determined using various techniques that involve some level of estimation and judgment, the degree of which is dependent on the price transparency and the complexity of the instruments.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Inputs consist of quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 1 inputs are considered the most reliable evidence of fair value.
- Level 2 - Inputs consist of observable market data, other than level 1 inputs, such as quoted prices for similar assets and liabilities in active markets or inputs other than quoted prices that are directly observable.
- Level 3 - Inputs consist of unobservable inputs which are derived and cannot be corroborated by market data or other entity-specific inputs.

**Accounts Receivable.** Accounts receivable are comprised of trade receivables and unbilled revenue. All accounts receivable are stated at cost. Exposure to losses on receivables for clearing and transaction fees and other amounts owed by clearing and trading firms is dependent on each firm's financial condition. With respect to clearing firms, our credit loss exposure is mitigated by the memberships that collateralize fees owed to the company. The company retains the right to liquidate exchange

memberships to satisfy an outstanding receivable. The allowance for doubtful accounts is calculated based on historical losses and management's assessment of probable future collections.

**Performance Bonds and Guaranty Fund Contributions.** Performance bonds and guaranty fund contributions held for clearing firms may be in the form of cash, securities or other non-cash deposits.

Performance bonds and guaranty fund contributions received in the form of cash held by CME may be invested in U.S. government securities, U.S. government agency securities and certain foreign government securities acquired through and held by a bank or broker-dealer subsidiary of a bank, a cash account at the Federal Reserve Bank of Chicago, reverse repurchase agreements secured with highly rated government securities, money market funds or through CME's Interest Earning Facility (IEF) program. Any interest earned on CME investments accrues to CME and is included in investment income on the consolidated statements of income. CME may distribute any interest earned on its investments to the clearing firms at its discretion. Because CME has control of the cash collateral and the benefits and market risks of ownership accrue to CME, cash performance bonds and guaranty fund contributions are reflected on the consolidated balance sheets.

Securities and other non-cash deposits may include U.S. Treasury securities, U.S. government agency securities, Eurobonds, corporate bonds, other foreign government securities and gold bullion. Securities and other non-cash deposits are held in safekeeping by a custodian bank. Interest and gains or losses on securities deposited to satisfy performance bond and guaranty fund requirements accrue to the clearing firm. Because the benefits and risks of ownership accrue to the clearing firm, non-cash performance bonds and guaranty fund contributions are not reflected on the consolidated balance sheets.

**Property.** Property is stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method, generally over two to thirty-nine years. Property and equipment are depreciated over their estimated useful lives. Leasehold improvements are amortized over the shorter of the remaining term of the respective lease to which they relate or the remaining useful life of the leasehold improvement. Land is reported at cost. Internal and external costs incurred in developing or obtaining computer software for internal use which meet the requirements for capitalization are amortized on a straight-line basis over the estimated useful life of the software, generally two to four years.

**Leases.** The company accounts for our leases of office space as operating leases. Landlord allowances are recorded as a direct reduction to the capitalized lease asset, which is reported in other assets and amortized to rent expense over the term of the lease. The associated lease liability represents the present value of lease payments remaining in the lease term and is recorded within current and other liabilities depending upon the balance sheet classification of the payment obligations as short-term or long-term. For sale leaseback transactions, the company evaluates the sale and the lease arrangement based on the company's conclusion as to whether control of the underlying asset has been transferred and recognizes the sale leaseback as either a sale transaction or under the financing method, which requires the asset to remain on the consolidated balance sheets throughout the term of the lease and the proceeds to be recognized as a financing obligation. A portion of the lease payments is recognized as a reduction of the financing obligation and a portion is recognized as interest expense based on an imputed interest rate.

**Goodwill and Other Intangible Assets.** Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination. The company reviews goodwill and indefinite-lived intangible assets for impairment at least quarterly and whenever events or circumstances indicate that their carrying values may not be recoverable. The company may test goodwill quantitatively for impairment by comparing the carrying value of a reporting unit to its estimated fair value. Estimating the fair value of a reporting unit involves significant judgments inherent in the analysis including estimating the amount and timing of future cash flows and the selection of appropriate discount rates and long-term growth rate assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for the reporting unit. If the carrying amount exceeds fair value, an impairment loss is recorded. In certain circumstances, goodwill may be reviewed qualitatively for indications of impairment without utilizing valuation techniques to estimate fair value.

The company evaluates the recoverability of indefinite-lived intangible assets at least quarterly by comparing the estimated fair value of the intangible asset to its carrying value. If the indefinite-lived intangible asset carrying value exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Estimating the fair value of indefinite-lived intangible assets involves the use of valuation techniques that rely on significant estimates and assumptions including forecasted revenue growth rates, forecasted allocations of expense and risk-adjusted discount rates. Changes in these estimates and assumptions could materially affect the determination of fair value for indefinite-lived intangible assets. In certain circumstances, indefinite-lived intangible assets may be reviewed qualitatively for indications of impairment without utilizing valuation techniques to estimate fair value.

Intangible assets subject to amortization are also assessed for impairment at least quarterly or when indicated by a change in economic or operational circumstances. The impairment assessment of these assets requires management to first compare the book value of the amortizing asset to undiscounted cash flows. If the book value exceeds the undiscounted cash flows, management is then required to estimate the fair value of the assets and record an impairment loss for the excess of the carrying value over the fair value and annually challenge the useful lives.

**Business Combinations.** The company accounts for business combinations using the acquisition method. The method requires the acquirer to recognize the assets acquired, liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date. The company may use independent valuation services to assist in determining the estimated fair values.

**Employee Benefit Plans.** The company recognizes the funded status of defined benefit postretirement plans on its consolidated balance sheets. Changes in that funded status are recognized in the year of change in other comprehensive income (loss). Plan assets and obligations are measured at year end. The company recognizes future changes in actuarial gains and losses and prior service costs in the year in which the changes occur through accumulated other comprehensive income (loss).

**Foreign Currency Accounting.** Foreign denominated assets and liabilities are re-measured into the functional currency using period-end exchange rates. Gains and losses from foreign currency transactions are included in other expense in the accompanying consolidated statements of income.

**Revenue Recognition.** Revenue recognition policies for specific sources of revenue are discussed below.

*Clearing and Transaction Fees.* Clearing and transaction fees include per-contract charges for trade execution, clearing, trading on the company's electronic trading platform and other fees. Fees are charged at various rates based on the product traded, the method of trade, the exchange trading privileges of the customer making the trade and the type of contract. Clearing and transaction fees are recognized as revenue when a buy and sell order are matched and the trade is cleared. Therefore, unfilled or canceled buy and sell orders have no impact on revenue. On occasion, the customer's exchange trading privileges may not be properly entered by the clearing firm and incorrect fees are charged for the transactions. When this information is corrected within the time period allowed by the exchange, a fee adjustment is provided to the clearing firm. A reserve is established for estimated fee adjustments to reflect corrections to customer exchange trading privileges. The reserve is based on the historical pattern of adjustments processed as well as specific adjustment requests. The company believes the allowances are adequate to cover estimated adjustments.

*Market Data and Information Services.* Market data and information services represent revenue earned for the dissemination of market information. Revenues are accrued each month based on the number of devices reported by vendors. The exchange conducts periodic examinations of the number of devices reported and assesses additional fees as necessary. On occasion, customers will pay for services in a lump sum payment; however, revenue is recognized as services are provided.

*Other Revenues.* Other revenues include access and communication fees, fees for collateral management and fees for trade order routing through agreements from various strategic relationships as well as other services to members and clearing firms. Revenue is recognized as services are provided.

**Marketing Costs.** Marketing costs are incurred for the production and communication of advertising as well as other marketing activities. These costs are expensed when incurred, except for costs related to the production of broadcast advertising, which are expensed when the first broadcast occurs.

**Income Taxes.** Deferred income taxes arise from temporary differences between the tax basis and book basis of assets and liabilities. A valuation allowance is recognized if it is anticipated that some or all of a deferred tax asset may not be realized. The company accounts for uncertainty in income taxes recognized in its consolidated financial statements by using a more-likely-than-not recognition threshold based on the technical merits of the tax position taken or expected to be taken. The company classifies interest and penalties related to uncertain tax positions in income tax expense.

**Newly Adopted Accounting Policies.** In February 2016, the FASB issued a standards update that requires lessees to recognize on the balance sheet the assets and liabilities associated with the rights and obligations created by those leases. The guidance for lessors is largely unchanged from current accounting rules. Under the new guidance, a lessee is required to recognize assets and liabilities for leases with terms of more than 12 months. Consistent with current accounting standards, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The company implemented this standard on January 1, 2019 using the modified retrospective approach with a cumulative effect of initially applying the guidance recognized on the date of initial adoption. Upon adoption of the new standard on January 1, 2019, the company recognized a lease liability of \$223.5 million and right-of-use asset of \$131.8 million.

**Recently Issued Accounting Pronouncements.** In June 2016, the FASB issued guidance that changes how credit losses are measured for most financial assets measured at amortized cost and certain other instruments. The standard requires an entity to estimate its lifetime expected credit loss and record an allowance, that when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. This forward-looking expected loss model generally will result in the earlier recognition of allowances for losses. The standard also amends the impairment model for available for sale debt securities and requires entities to determine whether all or a portion of the unrealized loss on an available for sale debt security is a credit loss. Severity and duration of the unrealized loss are no longer permissible factors in

concluding whether a credit loss exists. Entities will recognize improvements to estimated credit losses on available for sale debt securities immediately in earnings rather than as interest income over time. The standard is effective for reporting periods beginning after December 15, 2019. The standard's provisions must be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The company does not believe that the adoption of this guidance in 2020 will have a material impact on the consolidated financial statements.

In August 2018, the FASB issued a standards update that modifies the disclosure requirements for employers that sponsor defined pension or other postretirement plans. The guidance clarifies certain existing disclosures and expands the requirements for others. Disclosures that are not considered cost beneficial are removed by the update. Also, there is a new disclosure requirement to include an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. This guidance is effective for reporting periods beginning in 2021. Early adoption is permitted. The company plans to update the disclosures for these changes upon adoption of the guidance in 2021.

In December 2019, the FASB issued an accounting update that is intended to reduce cost and complexity related to accounting for income taxes. The update removes specific exceptions to the general principles for accounting for income taxes. Specifically, it eliminates the need for an entity to analyze whether the following exceptions apply in a given period: incremental approach for intraperiod tax allocation, accounting basis differences when there are ownership changes in foreign investments, and interim period income tax accounting for year-to-date losses that exceed anticipated losses. The update also simplifies the accounting for the following: franchise taxes that are partially based on income, transactions with a government that result in a step up in the tax basis of goodwill, separate financial statements of legal entities that are not subject to tax, and enacted changes in tax laws in interim periods. This update is effective for reporting periods beginning after December 15, 2020. Early adoption is permitted in any period for which the entity's financial statements have not yet been issued. The company does not believe that the adoption of this guidance will have a material impact on the consolidated financial statements.

### 3. TRANSACTIONS WITH AFFILIATED COMPANIES

The company transacts business in the normal course of operations with affiliates including its parent and entities under common ownership control. Affiliates include, but are not limited to, CME Group, Board of Trade of the City of Chicago, Inc. (CBOT), New York Mercantile Exchange, Inc. (NYMEX) and Commodity Exchange, Inc. (COMEX).

**Net asset contribution.** On April 1, 2019, CME Group contributed the net assets of NEX Services North America (NEX Services) of \$31.8 million to CME. NEX Services North America provides shared technology and other administrative services to affiliates of CME Group. The net assets of NEX Services does not constitute a business with inputs, processes and outputs and therefore was accounted for prospectively.

**Fees from affiliates.** CME receives fees from affiliates for shared operational and administrative services including, but not limited to, clearing and transaction processing; data distribution; network and infrastructure connectivity and maintenance; marketing, and staffing resources. In 2019 and 2018, CME recognized fees from affiliates of \$630.2 million and \$585.1 million, respectively. NEX Services also receives fees from affiliates for shared services. NEX Services recognized fees from affiliates of \$71.1 million for the period of April 1, 2019 through December 31, 2019.

**Fees to affiliates.** CME pays a fee to various affiliates for marketing, software development and market data services. In 2019 and 2018, CME recognized fees to affiliates of \$232.0 million and \$228.8 million, respectively. These expenses were included in other expenses in the consolidated statements of income.

**Allocation of stock-based compensation expense.** CME employees receive stock option, restricted stock awards and performance shares under CME Group's stock-based incentive plans. Stock-based compensation costs related to stock-based incentives received by CME's employees are recorded as compensation expense with an offset to additional paid-in capital in shareholder's equity.

**Allocation of income taxes.** CME is included in the consolidated federal and state income tax returns of its parent, CME Group. Income tax expense is allocated to members of the consolidated group based on a separate entity basis and presented on a separate entity basis as well.

**Amounts due from and to affiliates.** Amounts due from and to affiliates represent unsecured receivables and payables for shared services and income taxes.

At December 31, 2019, amounts due from (to) affiliates consisted of the following:

<i>(in millions)</i>	Shared Services	Income Taxes	Total	Due from Affiliates	Due to Affiliates	Total
CME Group	\$ 39.1	\$ 14.3	\$ 53.4	\$ 53.4	\$ —	\$ 53.4
CBOT	85.9	—	85.9	85.9	—	85.9
NYMEX	107.5	—	107.5	107.5	—	107.5
Other affiliates	20.7	—	20.7	68.3	(47.6)	20.7
Total	<u>\$ 253.2</u>	<u>\$ 14.3</u>	<u>\$ 267.5</u>	<u>\$ 315.1</u>	<u>\$ (47.6)</u>	<u>\$ 267.5</u>

At December 31, 2018, amounts due from (to) affiliates consisted of the following:

<i>(in millions)</i>	Shared Services	Income Taxes	Total	Due from Affiliates	Due to Affiliates	Total
CME Group	\$ 15.2	\$ (58.8)	\$ (43.6)	\$ —	\$ (43.6)	\$ (43.6)
CBOT	66.5	—	66.5	66.5	—	66.5
NYMEX	104.9	—	104.9	104.9	—	104.9
Other affiliates	(35.9)	—	(35.9)	9.6	(45.5)	(35.9)
Total	<u>\$ 150.7</u>	<u>\$ (58.8)</u>	<u>\$ 91.9</u>	<u>\$ 181.0</u>	<u>\$ (89.1)</u>	<u>\$ 91.9</u>

**Intercompany debt.** CME and CME Group have entered into an intercompany bilateral loan agreement in which each entity may make loans to the other entity. The agreement will expire in March 2020. The outstanding loan receivable or payable amount cannot exceed \$750.0 million and can be voluntarily prepaid. Interest accrued based on the prime rate, which ranged from 4.75% to 5.50% during 2019 and is payable quarterly or in connection with a voluntary prepayment. At December 31, 2019, there was not an outstanding loan balance. At December 31, 2018, the outstanding balance under the loan agreement was \$25.0 million.

NEX Services and CME Group have entered into an intercompany bilateral loan agreement in which each entity may make loans to the other entity. The agreement will expire in November 2022. The outstanding loan receivable or payable amount cannot exceed \$75.0 million and can be voluntarily prepaid. Interest accrued based on the prime rate, which ranged from 4.75% to 5.50% during 2019 and is payable quarterly or in connection with a voluntary prepayment. At December 31, 2019, the outstanding loan receivable balance under the loan agreement was \$19.0 million.

CME also maintains an intercompany committed line of credit agreement with CME Group. CME may use the proceeds for its general operating expenses and those of its subsidiaries. The line of credit provides for borrowings of up to \$400.0 million. The agreement will expire in March 2020. The company has the option to request an increase in the line of credit from \$400.0 million up to \$500.0 million. During 2019 and 2018, the company did not borrow against this facility.

#### 4. MARKETABLE SECURITIES

**Trading Securities.** The company maintains additional investments in a diverse portfolio of mutual funds related to its non-qualified deferred compensation plan (note 10). The fair value of these securities was \$57.7 million and \$45.9 million at December 31, 2019 and 2018, respectively.

**Available-for-Sale Securities.** An asset-backed security has been classified as available for sale. The amortized cost and fair value of the asset-backed security was \$0.5 million and \$0.3 million, respectively, at December 31, 2019 and \$0.6 million and \$0.3 million, respectively, December 31, 2018.

Net unrealized gains (losses) on marketable securities classified as available for sale are reported as a component of other comprehensive income (loss) and included in the accompanying consolidated statements of comprehensive income and shareholder's equity.

The gross unrealized loss totaled \$0.2 million and \$0.3 million for years ended December 31, 2019 and 2018. The asset-backed security was in an unrealized loss position for more than 12 months at both December 31, 2019 and 2018. The company has the ability and intent to hold the asset-backed security until a recovery of fair value, which may be at maturity, and does not consider the asset-backed security to be other-than-temporarily impaired at December 31, 2019. Based on its contractual terms, the asset-backed security is scheduled to mature in 2037.

## 5. REVENUE RECOGNITION

**Revenue from Contracts with Customers.** The majority of revenue consists of clearing and transaction fees:

*Clearing and transaction fees.* Clearing and transaction fees include electronic trading fees, surcharges for privately-negotiated transactions, and other volume-related charges for exchange-traded and cleared swaps contracts. Clearing and transaction fees are assessed upfront at the time of trade execution. As such, the company recognizes the majority of the fee revenue upon successful execution of the trade. The minimal remaining portion of the fee revenue related to clearing activities performed after the trade execution is recognized over the short-term period that the contract is outstanding, based on management's estimates of the average contract lifecycle. These estimates are based on various assumptions to approximate the amount of fee revenue to be attributed to services performed through contract settlement, expiration, or termination. These assumptions include the average number of days that a contract remains in open interest, contract turnover, average revenue per day, and revenue remaining in open interest at the end of each period.

The nature of contracts gives rise to several types of variable consideration, including volume-based pricing tiers, customer incentives associated with market maker programs and other fee discounts. The company includes fee discounts and incentives in the estimated transaction price when there is a basis to reasonably estimate the amount of the fee. These estimates are based on historical experience, anticipated performance, and best judgment at the time. Because of the company's certainty in estimating these amounts, they are included in the transaction price of contracts.

*Market data and information services.* Market data and information services represents revenue from the dissemination of market data to subscribers, distributors, and other third-party licensees of market data. Pricing for market data is primarily based on the number of reportable devices used as well as the number of subscribers enrolled under the arrangement. Fees for these services are generally billed monthly. Market data services are satisfied over time and revenue is recognized on a monthly basis as the customers receive and consume the benefit of the market data services. However, the company also maintains certain annual license arrangements with one-time upfront fees. The fees for annual licenses are initially recorded as a contract liability and recognized as revenue monthly over the term of the annual period.

*Other.* Other revenues include access and communication fees, fees for collateral management, fees for trade order routing through agreements from various strategic relationships, as well as other services to customers and clearing firms. Access and communication fees are charges to members and clearing firms that utilize various telecommunications networks and communications services. Fees for these services are generally billed monthly and the associated fee revenue is recognized as billed. Collateral management fees are charged to clearing firms that have collateral on deposit with the clearing house to meet their minimum performance bond and guaranty fund obligations on the exchange. These fees are calculated based on daily collateral balances and are billed monthly. This fee revenue is recognized as billed as the customers receive and consume the benefits of the services. Pricing for strategic relationships may be driven by customer levels and activity. There are fee arrangements which provide for monthly as well as quarterly payments in arrears. Revenue is recognized monthly for strategic relationship arrangements as the customers receive and consume the benefits of the services.

The following table represents a disaggregation of revenue from contracts with customers by timing for the years ended December 31, 2019 and 2018:

(in millions)	2019	2018
<b>Timing of Revenue Recognition</b>		
Services transferred at a point in time	\$ 1,243.5	\$ 1,371.4
Services transferred over time	1,055.7	907.8
One-time charges and miscellaneous revenues	8.3	2.1
<b>Total revenues</b>	<u>\$ 2,307.5</u>	<u>\$ 2,281.3</u>

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, and customer advances and deposits (contract liabilities) on the consolidated balance sheets. Certain fees for transactions, annual licenses, and other revenue arrangements are billed upfront before revenue is recognized, which results in the recognition of contract liabilities. These liabilities are reported on the consolidated balance sheets on a contract-by-contract basis at the end of each reporting period. For annual licenses and upfront fee arrangements, the company generally bills customers upon contract execution. These payments are recognized as revenue over time as the obligations under the contracts are satisfied. The contract liability balances during 2019 were not materially impacted by any other factors. The balance of contract liabilities was \$8.4 million and \$9.9 million as of December 31, 2019 and 2018, respectively.

## 6. PERFORMANCE BONDS AND GUARANTY FUND CONTRIBUTIONS

The clearing house clears and guarantees the settlement of contracts traded in the futures and options and interest rate swap markets. In its guarantor role, the clearing house has precisely equal and offsetting claims to and from clearing firms on opposite sides of each contract, standing as an intermediary on every contract cleared. In the United States, clearing firm positions are held according to Commodity and Futures Trading Commission (CFTC) regulatory account segregation standards. To the extent that funds are not otherwise available to satisfy an obligation under the applicable contract, the clearing house bears counterparty credit risk in the event that future market movements create conditions that could lead to clearing firms failing to meet their obligations to the clearing house. The clearing house reduces the exposure through risk management programs that include initial and ongoing financial standards for designation as a clearing firm, performance bond requirements, daily mark-to-market, mandatory guaranty fund contributions and intra-day monitoring.

Each clearing firm is required to deposit and maintain balances in the form of cash, U.S. government securities, certain foreign government securities, bank letters of credit or other approved collateral investments to satisfy performance bond and guaranty fund requirements. All non-cash deposits and certain cash deposits with foreign currency exposure are marked-to-market and haircut on a daily basis. Securities deposited by the clearing firms are not reflected on the consolidated financial statements and the clearing house does not earn any interest on these deposits. These balances may fluctuate significantly over time due to collateral investment choices available to clearing firms and changes in the amount of contributions required.

The clearing house marks-to-market open positions at least once a day (twice a day for futures and options contracts), and requires payment from clearing firms whose positions have lost value and make payments to clearing firms whose positions have gained value. The clearing house has the capability to mark-to-market more frequently as market conditions warrant.

Under the extremely unlikely scenario of simultaneous default by every clearing firm who has open positions with unrealized losses, the maximum exposure at the time of default related to positions other than interest rate swap contracts would be one half day of changes in fair value of all open positions, before considering the clearing house's ability to access defaulting clearing firms' collateral deposits. For cleared interest rate swap contracts, the maximum exposure at the time of default related to the clearing house's guarantee would be one full day of changes in fair value of all open positions, before considering the clearing house's ability to access defaulting clearing firms' collateral. The clearing firms' collateral requirements are sized to cover at least one day of anticipated price movements. During 2019, the clearing house transferred an average of approximately \$3.4 billion a day through the clearing system for settlement from clearing firms whose positions had lost value to clearing firms whose positions had gained value. The clearing house reduces its exposure through initial and maintenance performance bond requirements and mandatory guaranty fund contributions. The company believes that the guarantee liability is immaterial and therefore has not recorded any liability at December 31, 2019.

At December 31, 2019, performance bond and guaranty fund contribution assets on the consolidated balance sheets include cash as well as U.S. government agency securities with maturity dates of 90 days or less. U.S. government agency securities are purchased by CME, at its discretion, using cash collateral. The benefits, including interest earned, and risks of ownership accrue to CME. Interest earned is included in investment income on the consolidated statements of income. The U.S. government agency securities held at December 31, 2019 will mature during the first quarter of 2020. These securities are marked to fair value on the consolidated balance sheets.

The amortized cost and fair value of these securities at December 31, 2019 were as follows. There were no outstanding balances at December 31, 2018.

(in millions)	2019	
	Amortized Cost	Fair Value
U.S. government agency securities	\$ 898.2	\$ 898.2

CME has been designated as a systemically important financial market utility by the Financial Stability Oversight Council and maintains cash accounts at the Federal Reserve Bank of Chicago. At December 31, 2019 and 2018, The clearing house maintained \$22.9 billion and \$24.7 billion, respectively, within the cash accounts at the Federal Reserve Bank of Chicago. The cash deposited at the Federal Reserve Bank of Chicago is included within performance bonds and guaranty fund contributions on the consolidated balance sheets.

Clearing firms, at their option, may instruct the clearing house to deposit the cash or securities held by the clearing house into one of the IEF programs. The total principal in the IEF programs was \$4.1 billion at December 31, 2019 and \$3.1 billion at December 31, 2018. This balance is not included on the company's consolidated balance sheets.

CME and The Options Clearing Corporation (OCC) have a perpetual cross-margin arrangement, whereby a clearing firm may maintain a cross-margin account in which a clearing firm's positions in certain equity index futures and options are combined with certain positions cleared by OCC for purposes of calculating performance bond requirements. The performance bond deposits are held jointly by CME and OCC. Cross-margin cash, securities and letters of credit jointly held with OCC under the

cross-margin agreement are reflected at 50% of the total, or CME's proportionate share per that agreement. If a participating firm defaults, the gain or loss on the liquidation of the firm's open position and the proceeds from the liquidation of the cross-margin account would be allocated 50% each to CME and OCC. The company believes that the guarantee liability is immaterial and therefore has not recorded any liability at December 31, 2019.

In addition, CME has perpetual cross-margin agreements with Fixed Income Clearing Corporation (FICC) whereby the clearing firms' offsetting positions with CME and FICC are subject to reduced performance bond requirements. Clearing firms maintain separate performance bond deposits with each clearing house, but depending on the net offsetting positions between CME and FICC, each clearing house may reduce that firm's performance bond requirements. In the event of a firm default, the total liquidation net gain or loss on the firm's offsetting open positions and the proceeds from the liquidation of the performance bond collateral held by each clearing house's supporting offsetting positions would be divided evenly between CME and FICC. Additionally, if, after liquidation of all the positions and collateral of the defaulting firm at each respective clearing organization, and taking into account any cross-margining loss sharing payments, any of the participating clearing organizations has a remaining liquidating surplus, and any other participating clearing organization has a remaining liquidating deficit, any additional surplus from the liquidation would be shared with the other clearing house to the extent that it has a remaining liquidating deficit. Any remaining surplus funds would be passed to the bankruptcy trustee. The company believes that the guarantee liability is immaterial and therefore has not recorded any liability at December 31, 2019.

Each clearing firm for futures and options is required to deposit and maintain specified guaranty fund contributions in the form of cash or U.S. Treasury securities. In the event that performance bonds, guaranty fund contributions and other assets required to support clearing membership of a defaulting clearing firm are inadequate to fulfill that clearing firm's outstanding financial obligation, the base guaranty fund for contracts other than interest rate swaps is available to cover potential losses after first utilizing \$100.0 million of corporate contributions designated by CME to be used in the event of a default of a clearing firm for the base guaranty fund.

The clearing house maintains a separate guaranty fund to support the clearing firms that clear interest rate swap products. The funds for interest rate swaps are independent of the base guaranty fund and are isolated to clearing firms for products in the respective asset class. Each clearing firm for cleared interest rate swaps is required to deposit and maintain specified guaranty fund contributions in the form of cash or U.S. Treasury securities. In the event that performance bonds, guaranty fund contributions and other assets required to support clearing membership of a defaulting clearing firm for cleared interest rate swap contracts are inadequate to fulfill that clearing firm's outstanding financial obligation, the interest rate swaps contracts guaranty fund is available to cover potential losses after first utilizing \$150.0 million of corporate contributions designated by CME to be used in the event of a default of a cleared interest rate swap clearing firm.

CME maintains a 364-day multi-currency line of credit with a consortium of domestic and international banks to be used in certain situations by the clearing house. CME may use the proceeds to provide temporary liquidity in the unlikely event of a clearing firm default, in the event of a liquidity constraint or default by a depository (custodian of the collateral), or in the event of a temporary disruption with the domestic payments system that would delay payment of settlement variation between CME and its clearing firms. Clearing firm guaranty fund contributions received in the form of cash or U.S. Treasury securities as well as the performance bond assets of a defaulting firm can be used to collateralize the facility. The line of credit provides for borrowings of up to \$7.0 billion. At December 31, 2019, guaranty fund contributions available for clearing firms were \$8.5 billion. CME has the option to request an increase in the line from \$7.0 billion to \$10.0 billion, subject to the approval of participating banks. In addition to the 364-day fully secured, committed multi-currency line of credit, the company also has the option to use CME Group's \$2.4 billion multi-currency revolving senior credit facility to provide liquidity for the clearing house in the unlikely event of default.

The clearing house is required under the Commodity Exchange Act in the United States to segregate cash and securities deposited by clearing firms from its customers. In addition, the clearing house requires segregation of all funds deposited by its clearing firms from operating funds.

Cash and non-cash deposits held as performance bonds and guaranty fund contributions at fair value at December 31 were as follows:

(in millions)	2019		2018	
	Cash	Non-Cash Deposits and IEF Funds <sup>(1)</sup>	Cash	Non-Cash Deposits and IEF Funds <sup>(1)</sup>
Performance bonds	\$ 35,597.3	\$ 116,462.7	\$ 38,211.4	\$ 102,264.8
Guaranty fund contributions	1,470.1	7,500.6	1,185.9	6,935.9
Cross-margin arrangements	—	191.2	22.3	202.3
Performance bond collateral for delivery	9.6	2.1	35.9	—
Total	<u>\$ 37,077.0</u>	<u>\$ 124,156.6</u>	<u>\$ 39,455.5</u>	<u>\$ 109,403.0</u>

(1) IEF funds include customer-directed investments in IEF funds that are not included on the consolidated balance sheets.

Cross-margin arrangements include collateral for the cross-margin accounts with OCC and FICC.

Cash performance bonds may include intraday settlement, if any, that is owed to the clearing firms and paid the following business day. The balance of intraday settlements was \$133.8 million and \$206.8 million at December 31, 2019 and 2018, respectively. Intraday settlements may be invested on an overnight basis and are offset by an equal liability owed to clearing firms.

In addition to cash, securities and other non-cash deposits, irrevocable letters of credit may be used as performance bond deposits for clearing firms. At December 31, these letters of credit, which are not included in the accompanying consolidated balance sheets, were as follows:

(in millions)	2019	2018
Performance bonds	\$ 2,461.0	\$ 2,699.2
Total Letters of Credit	<u>\$ 2,461.0</u>	<u>\$ 2,699.2</u>

All cash, securities and letters of credit posted as performance bonds are only available to meet the financial obligations of that clearing firm to the clearing house.

## 7. PROPERTY

A summary of the property accounts at December 31 is presented below:

(in millions)	2019	2018	Estimated Useful Life
Building and building improvements	131.9	132.2	3 - 39 years
Leasehold improvements	127.1	119.8	3 - 13 years
Furniture, fixtures and equipment	301.7	263.8	2 - 7 years
Software and software development costs	455.4	364.7	2 - 4 years
Total property	<u>1,016.1</u>	<u>880.5</u>	
Less accumulated depreciation and amortization	<u>(660.4)</u>	<u>(591.6)</u>	
Property, net	<u>\$ 355.7</u>	<u>\$ 288.9</u>	

## 8. DEBT

CME maintains a 364-day multi-currency revolving secured credit facility with a consortium of domestic and international banks to be used in certain situations by CME Clearing. The facility provides for borrowings of up to \$7.0 billion. CME may use the proceeds to provide temporary liquidity in the unlikely event of a clearing firm default, in the event of a liquidity constraint or default by a depository (custodian for our collateral), or in the event of a temporary disruption with the domestic payments system that would delay payment of settlement variation between us and our clearing firms. CME clearing firm guaranty fund contributions received in the form of cash or U.S. Treasury securities as well as the performance bond assets of a defaulting firm can be used to collateralize the facility. At December 31, 2019, guaranty funds available to collateralize the facility totaled \$8.5 billion. We have the option to request an increase in the line from \$7.0 billion to \$10.0 billion. Throughout 2019 and 2018, the company did not borrow any funds against this facility. However, in order to ensure that the facility would

operate as intended, CME periodically draws down nominal amounts of funds against the line of credit and immediately repays the amounts borrowed. The 364-day multi-currency line of credit contains a requirement that CME remain in compliance with a consolidated tangible net worth test, defined as CME consolidated shareholder's equity less intangible assets (as defined in the line of credit agreement) of not less than \$800.0 million. At December 31, 2019, CME is in compliance with the covenant requirement. In addition to the 364-day multi-currency line of credit, CME also has the option to use CME Group's \$2.4 billion multi-currency revolving senior credit facility to provide liquidity for clearing operations in the unlikely event of default in certain circumstances.

## 9. INCOME TAXES

The income tax provision consisted of the following for the years ended December 31. The company is subject to regulation under a wide variety of federal, state and foreign tax laws and regulations.

<i>(in millions)</i>	<b>2019</b>	<b>2018</b>
Current:		
Federal	\$ 161.4	\$ 222.7
State	40.4	60.5
Foreign	2.2	1.4
Total	<u>204.0</u>	<u>284.6</u>
Deferred:		
Federal	16.2	(6.8)
State	4.6	1.0
Total	<u>20.8</u>	<u>(5.8)</u>
Total Income Tax Provision	<u>\$ 224.8</u>	<u>\$ 278.8</u>

Reconciliation of the U.S. federal income tax rate (statutory tax rate) to the effective tax rate is as follows:

	<b>2019</b>	<b>2018</b>
Statutory tax rate	21.0%	21.0%
State taxes, net of federal benefit	3.3	4.3
Foreign-derived intangible income deduction	(1.9)	—
Other, net	(1.9)	(0.6)
Effective Tax Rate	<u>20.5%</u>	<u>24.7%</u>

In 2019, the effective tax rate was higher than the statutory tax rate due to the impact of state taxes, partially offset by state allowed foreign-derived intangible income deduction (FDII) in Sec. 250(a) introduced during the Tax Cut and Jobs Act tax reform. Proposed FDII Deduction regulations were released in 2019 and as a result, management revised the income tax calculations to reflect the proposed guidance. The benefit recognized in 2019 includes estimates for the deduction for 2018 and 2019.

In 2018 the effective tax rates was higher than the statutory tax rate primarily due to the impact of state and local income taxes.

At December 31, net deferred income tax assets (liabilities) consisted of the following:

<i>(in millions)</i>	2019	2018
Deferred Income Tax Assets:		
Net operating losses	\$ 2.3	\$ 2.4
Accrued expenses, compensation and other	64.3	63.3
Subtotal	66.6	65.7
Valuation allowance	(0.6)	(0.6)
Total deferred income tax assets	66.0	65.1
Deferred Income Tax Liabilities:		
Property	(61.7)	(41.8)
Purchased intangible assets	0.1	0.1
Total deferred income tax liabilities	(61.6)	(41.7)
Net Deferred Income Tax Assets	\$ 4.4	\$ 23.4

At December 31, 2019 and 2018, net non-current deferred income tax assets were included in other assets in the consolidated balance sheets.

A valuation allowance is recorded when it is more-likely-than-not that some portion or all of the deferred income tax assets may not be realized. The ultimate realization of the deferred income tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions.

At December 31, 2019 and 2018, the company had gross domestic and foreign income tax loss carry forwards of \$10.9 million and \$11.7 million, respectively. These amounts primarily relate to the losses from the acquisition of Pivot, Inc. in 2012. At December 31, 2019 and 2018, the company has determined that a portion of the net operating loss deferred tax assets were not more-likely-than-not to be realized and a valuation allowance of \$0.6 million has been provided at December 31, 2019 and 2018. The net operating losses will expire between 2024 and 2032.

The following is a summary of the company's unrecognized tax benefits:

<i>(in millions)</i>	2019	2018
Gross unrecognized tax benefits	\$ 130.1	\$ 132.3
Unrecognized tax benefits, net of tax impacts in other jurisdictions	119.9	122.3
Unrecognized interest and penalties related to uncertain tax positions	13.3	18.1
Interest and penalties recognized in the consolidated statements of income	(4.8)	4.3

The company does not believe it is reasonably possible that within the next twelve months, unrecognized tax benefits will change by a significant amount.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

<i>(in millions)</i>	2019	2018
Balance at January 1	\$ 132.3	\$ 123.1
Additions based on tax positions related to the current year	11.9	9.3
Additions for tax positions of prior years	2.1	2.4
Reductions for tax positions of prior years	(5.4)	—
Settlements with taxing authorities	(10.1)	(1.1)
Reductions as a result of lapse of statutes of limitations	(0.7)	(1.4)
Balance at December 31	\$ 130.1	\$ 132.3

The company is subject to U.S. federal income tax as well as income taxes in Illinois and other state and foreign jurisdictions. As of December 31, 2019, substantially all federal and state income tax matters had been concluded through 2007 and 2006, respectively.

## 10. EMPLOYEE BENEFIT PLANS

**Pension Plan.** CME maintains a non-contributory defined benefit cash balance pension plan for eligible employees. CME's plan provides for a pay-based credit added to the cash balance account based on age and earnings and includes salary and cash bonuses in the definition of earnings. Employees who have completed a continuous 12-month period of employment and have reached the age of 21 are eligible to participate. Participant cash balance accounts receive an interest credit equal to the greater of the one-year constant maturity yield for U.S. Treasury notes or 4.0%. Participants become vested in their accounts after three years of service. The measurement date used for the plan is December 31.

The following is a summary of the change in projected benefit obligation:

<i>(in millions)</i>	2019	2018
Balance at January 1	\$ 265.1	\$ 273.9
Service cost	19.0	19.1
Interest cost	12.3	10.5
Actuarial (gain) loss	35.9	(23.5)
Benefits paid	(8.1)	(14.9)
Balance at December 31	<u>\$ 324.2</u>	<u>\$ 265.1</u>

The accumulated benefit obligation at December 31, 2019 and 2018 was \$293.1 million and \$240.9 million, respectively.

The following is a summary of the change in the fair value of plan assets:

<i>(in millions)</i>	2019	2018
Balance at January 1	\$ 315.8	\$ 348.0
Actual return on plan assets	49.2	(17.3)
Employer contributions	—	—
Benefits paid	(8.1)	(14.9)
Balance at December 31	<u>\$ 356.9</u>	<u>\$ 315.8</u>

The plan assets are classified into a fair value hierarchy in their entirety based on the lowest level of input that is significant to each asset or liability's fair value measurement. Valuation techniques for level 2 assets use significant observable inputs such as quoted prices for similar assets, quoted market prices in inactive markets and other inputs that are observable or can be supported by observable market data. The fair value of each major category of plan assets as of December 31 is indicated below.

<i>(in millions)</i>	2019	2018
Level 2:		
Money market funds	\$ 9.6	\$ 8.1
Mutual funds:		
Fixed income	155.0	155.0
U.S. equity	121.1	94.4
Foreign equity	71.2	58.3
Total	<u>\$ 356.9</u>	<u>\$ 315.8</u>

At December 31, 2019 and 2018, the fair value of pension plan assets exceeded the projected benefit obligation by \$32.7 million and \$50.7 million, respectively, and the excess was recorded as a non-current pension asset in other assets.

CME's funding goal is to have its pension plan 100% funded at each year-end on a projected benefit obligation basis, while also satisfying any minimum required contribution and obtaining the maximum tax deduction. Year-end 2019 assumptions have been used to project the assets and liabilities from December 31, 2019 to December 31, 2020. The result of this projection is that estimated liabilities would not exceed the fair value of the plan assets at December 31, 2020. Accordingly, the company anticipates based on this projection that no additional contribution in 2020 will be necessary for it to meet its funding goal. However, the amount of the actual contribution is contingent on various factors, including the actual rate of return on the plan assets during 2020 and the December 31, 2020 discount rate.

The components of net pension expense and the assumptions used to determine the end-of-year projected benefit obligation and net pension expense in aggregate are indicated below:

<i>(in millions)</i>	2019	2018
Components of Net Pension Expense:		
Service cost	\$ 19.0	\$ 19.1
Interest cost	12.3	10.5
Expected return on plan assets	(20.0)	(22.1)
Recognized net actuarial loss	5.0	2.7
Net Pension Expense	<u>\$ 16.3</u>	<u>\$ 10.2</u>

Assumptions Used to Determine End-of-Year Benefit Obligation:

Discount rate	3.40%	4.40%
Rate of compensation increase	5.00	5.00
Cash balance interest crediting rate	4.00	4.00

Assumptions Used to Determine Net Pension Expense:

Discount rate	4.40%	3.70%
Rate of compensation increase	5.00	5.00
Expected return on plan assets	6.50	6.50
Interest crediting rate	4.00	4.00

The discount rate for the plan was determined based on the market value of a theoretical settlement bond portfolio. This portfolio consisted of U.S. dollar denominated Aa-rated corporate bonds across the full maturity spectrum. A single equivalent discount rate was determined to align the present value of the required cash flow with that settlement value. The resulting discount rate was reflective of both the current interest rate environment and the plan's distinct liability characteristics.

The basis for determining the expected rate of return on plan assets for the plan is comprised of three components: historical returns, industry peers and forecasted return. The plan's total return is expected to equal the composite performance of the security markets over the long term. The security markets are represented by the returns on various domestic and international stock, bond and commodity indexes. These returns are weighted according to the allocation of plan assets to each market and measured individually.

The overall objective of the plan is to achieve required long-term rates of return in order to meet future benefit payments. The component of the investment policy for the plan that has the most significant impact on returns is the asset mix. The asset mix has a minimum and maximum range depending on asset class. The plan assets are diversified to minimize the risk of large losses by any one or more individual assets. Such diversification is accomplished, in part, through the selection of asset mix and investment management. The asset allocation for the plan, by asset category, at December 31 was as follows:

	2019	2018
Fixed income	43.5%	49.1%
Money market funds	2.7	2.5
U.S. equity	33.9	29.9
Foreign equity	19.9	18.5

The range of target allocation percentages for 2019 is as follows:

	Minimum	Maximum
Fixed income	50.0%	50.0%
U.S. large-cap equity	10.0%	40.0%
U.S. mid-cap equity	5.0	13.0
U.S. small-cap equity	5.0	10.0
Foreign developed equity	—	20.0
Foreign small-cap equity	—	5.0
Emerging markets equity	—	5.0

At times, the company may determine that it is necessary to place some assets in cash equivalent investments in order to pay expected plan liabilities. Given this, the actual asset allocation for the plan may not fall within the target allocation ranges from time to time.

According to the plan's investment policy, the plan is not allowed to invest in securities that compromise independence, short sales of securities directly owned by the plan, securities purchased on margin or other uses of borrowed funds, derivatives not used for hedging purposes, restricted stock or illiquid securities or any other transaction prohibited by employment laws. If the plan directly invests in short-term and long-term debt obligations, the investments are limited to obligations rated at the highest rating category by Standard & Poor's (S&P) or Moody's.

The pre-tax balance and activity of the prior service costs and actuarial losses for the pension plan, which are included in other comprehensive income (loss), for 2019 are as follows:

<i>(in millions)</i>	<b>Actuarial Loss</b>
Balance at January 1	\$ 73.5
Unrecognized net loss	6.7
Recognized as a component of net pension expense	(5.0)
Balance at December 31	<u>\$ 75.2</u>

The company expects to amortize \$4.4 million of actuarial loss and prior service costs from accumulated other comprehensive income (loss) into net periodic benefit costs in 2020.

At December 31, 2019, anticipated benefit payments from the plan in future years are as follows:

<i>(in millions)</i>	
2020	\$ 20.7
2021	21.6
2022	22.5
2023	23.5
2024	24.2
2025-2029	130.5

**Savings Plan.** CME maintains a defined contribution savings plan pursuant to Section 401(k) of the Internal Revenue Code, whereby all U.S. employees are participants and have the option to contribute to this plan. CME matches employee contributions up to 3% of the employee's base salary and may make additional discretionary contributions. Total expense for the savings plan was \$6.7 million and \$6.3 million in 2019 and 2018, respectively.

**Non-Qualified Plans.** CME maintains non-qualified plans, under which participants may make assumed investment choices with respect to amounts contributed on their behalf. Although not required to do so, CME invests such contributions in assets that mirror the assumed investment choices. The balances in these plans are subject to the claims of general creditors of the company and totaled \$57.7 million and \$45.9 million at December 31, 2019 and 2018, respectively. Although the value of the plans is recorded as an asset in marketable securities in the consolidated balance sheets, there is an equal and offsetting liability. The investment results of these plans have no impact on net income as the investment results are recorded in equal amounts to both investment income and compensation and benefits expense.

**Supplemental Savings Plan.** CME maintains a supplemental plan to provide benefits for employees who have been impacted by statutory limits under the provisions of the qualified pension and savings plan. Employees in this plan are subject to the vesting requirements of the underlying qualified plans.

**Deferred Compensation Plan.** A deferred compensation plan is maintained by CME, under which eligible officers and members of the board of directors may contribute a percentage of their compensation and defer income taxes thereon until the time of distribution.

## 11. LEASES AND OTHER COMMITMENTS

**Leases.** The company adopted the new leasing standard on January 1, 2019, using the modified retrospective approach. The standard requires lessees to recognize on the balance sheet the assets and liabilities associated with the rights and obligations created by those leases. Upon implementation of the standard, the company utilized the package of practical expedients which did not require reassessment of the following: (a) whether any expired or existing contracts are or contain leases, (b) the lease classification for any expired or existing leases, and (c) any initial direct costs for existing leases. In addition, the company has elected not to separately account for lease and non-lease components, resulting in a greater amount of capitalized lease costs on the balance sheet. Upon adoption of the new standard on January 1, 2019, the company recognized a lease liability of \$223.5 million and right-of-use asset of \$131.8 million.

The company has operating leases for datacenters and corporate offices. The operating leases have remaining lease terms of up to 13 years, some of which include options to extend or renew the leases for up to an additional five years, and some of which include options to early terminate the leases in less than 12 months. Management evaluates the exercisability of these options at least quarterly in order to determine whether the contract term must be reassessed. For certain office spaces, the company has entered into arrangements to sublease excess space to third parties, while the original lease contract remains in effect with the landlord.

The company also has one finance lease, which is related to the sale of our datacenter in March 2016. In connection with the sale, the company leased back a portion of the property. The sale leaseback transaction was recognized under the financing method and not as a sale leaseback arrangement.

The right-of-use lease asset is recorded within other assets, and the present value of the lease liability is recorded within other liabilities (segregated between short term and long term) on the consolidated balance sheets. The discount rate applied to the lease payments represents the company's incremental borrowing rate. The company has elected to utilize the short term lease exception for purposes of adopting this standard, such that the company has not capitalized on the balance sheet a lease asset or lease liability associated with leases with terms of 12 months or less from the commencement date.

The components of lease costs were as follows:

<i>(in millions)</i>	<b>Year Ended December 31, 2019</b>
Operating lease expense:	
Operating lease cost	\$ 28.6
Short-term lease cost	1.2
Total operating lease expense included in other expense	<u>\$ 29.8</u>
Finance lease expense:	
Interest expense	\$ 3.6
Depreciation expense	9.2
Total finance lease expense	<u>\$ 12.8</u>
Sublease revenue included in other revenue	\$ 4.1

Supplemental cash flow information related to leases was as follows:

<i>(in millions)</i>	<b>Year Ended December 31, 2019</b>
Cash outflows for operating leases	\$ 31.7
Cash outflows for finance leases	19.0

Supplemental balance sheet information related to leases was as follows:

**Operating leases**

<i>(in millions)</i>	<b>December 31, 2019</b>
Operating lease right-of-use assets	\$ 189.5
Operating lease liabilities:	
Other current liabilities	\$ 20.2
Other liabilities	264.8
Total operating lease liabilities	<u>\$ 285.0</u>
Weighted average remaining lease term (in months)	141
Weighted average discount rate	4.3%

**Finance leases**

<i>(in millions)</i>	<b>December 31, 2019</b>
Finance lease right-of-use assets	\$ 97.5
Finance lease liabilities:	
Other current liabilities	\$ 7.4
Other liabilities	91.5
Total finance lease liabilities	<u>\$ 98.9</u>
Weighted average remaining lease term (in months)	135
Weighted average discount rate	3.5%

Future minimum lease payments were as follows as of December 31, 2019 for operating and finance leases:

<i>(in millions)</i>	<b>Operating Leases</b>
2020	31.9
2021	31.6
2022	31.9
2023	32.5
2024	27.3
Thereafter	210.8
Total lease payments	<u>366.0</u>
Less: imputed interest	(81.0)
Present value of lease liability	<u>\$ 285.0</u>

<i>(in millions)</i>	<b>Finance Lease</b>
2020	16.9
2021	17.0
2022	17.1
2023	17.2
2024	17.4
Thereafter	111.8
Total lease payments	197.4
Less: imputed interest	(98.5)
Present value of lease liability	<u>\$ 98.9</u>

**Other Commitments.** Commitments include material contractual purchase obligations that are non-cancellable. Purchase obligations relate to licensing, hardware, software and maintenance as well as telecommunication services. At December 31, 2019, future minimum payments due under purchase obligations were payable as follows (in millions):

<b>Year</b>		
2020	\$	14.7
2021		13.5
2022		10.7
2023		8.0
2024		—
Thereafter		—
Total	<u>\$</u>	<u>46.9</u>

## **12. CONTINGENCIES**

*Legal and Regulatory Matters.* In 2003, the U.S. Futures Exchange, L.L.C. (Eurex U.S.) and U.S. Exchange Holdings, Inc. filed suit in federal court alleging that CBOT and CME violated the antitrust laws and tortuously interfered with the business relationship and contract between Eurex U.S. and The Clearing Corporation. On October 31, 2018, the Court granted CBOT's and CME's motion for summary judgment and dismissed the case in its entirety. Eurex has appealed this decision.

In the normal course of business, the company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry and oversight. These matters could result in censures, fines, penalties or other sanctions. Management believes the outcome of any resulting actions will not have a material impact on its consolidated financial position or results of operations. However, the company is unable to predict the outcome or the timing of the ultimate resolution of these matters, or the potential fines, penalties or injunctive or other equitable relief, if any, that may result from these matters.

In addition, the company is a defendant in, and has potential for, various other legal proceedings arising from its regular business activities. While the ultimate results of such proceedings against the company cannot be predicted with certainty, the company believes that the resolution of any of these matters on an individual or aggregate basis will not have a material impact on its consolidated financial position or results of operations.

No accrual was required for legal and regulatory matters as none were probable and estimable as of December 31, 2019 and 2018.

*Intellectual Property Indemnifications.* Certain agreements with customers and other third parties related to accessing the CME Group platform, utilizing market data services and licensing CME SPAN software may contain indemnifications from intellectual property claims that may be made against them as a result of their use of the applicable products and/or services. The potential future claims relating to these indemnifications cannot be estimated and therefore no liability has been recorded.

## **13. GUARANTEES**

*Mutual Offset Agreement.* CME and Singapore Exchange Limited (SGX) maintain a mutual offset agreement with a current term through October 2020. This agreement enables market participants to open a futures position on one exchange and liquidate it on the other. The term of the agreement will automatically renew for a one-year period unless either party provides advance notice of its intent to terminate. CME can maintain collateral in the form of U.S. Treasury securities or irrevocable,

standby letters of credit. At December 31, 2019, CME was contingently liable to SGX on irrevocable letters of credit totaling \$260.0 million. Regardless of the collateral, CME guarantees all cleared transactions submitted through SGX and would initiate procedures designed to satisfy these financial obligations in the event of a default, such as the use of performance bonds and guaranty fund contributions of the defaulting clearing firm. The company believes that its guarantee liability is immaterial and therefore has not recorded any liability at December 31, 2019.

*Family Farmer and Rancher Protection Fund.* In 2012, the company established the Family Farmer and Rancher Protection Fund (the Fund). The Fund is designed to provide payments, up to certain maximum levels, to family farmers, ranchers and other agricultural industry participants who use the company's agricultural products and who suffer losses to their segregated account balances due to their CME clearing member becoming insolvent. Under the terms of the Fund, farmers and ranchers are eligible for up to \$25,000 per participant. Farming and ranching cooperatives are eligible for up to \$100,000 per cooperative. The Fund has an aggregate maximum payment amount of \$100.0 million. Since its establishment, the Fund has made payments of approximately \$2.0 million, which leaves \$98.0 million available for future claims. If payments to participants were to exceed this amount, payments would be pro-rated. Clearing members and customers must register in advance with the company and provide certain documentation in order to substantiate their eligibility. The company believes that its guarantee liability is immaterial and therefore has not recorded any liability at December 31, 2019.

#### 14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables present changes in the accumulated balances for each component of other comprehensive income (loss), including current period other comprehensive income (loss) and reclassifications out of accumulated other comprehensive income (loss):

<i>(in millions)</i>	Investment Securities	Defined Benefit Plans	Total
Balance at December 31, 2018	\$ (0.1)	\$ (52.7)	\$ (52.8)
Other comprehensive income (loss) before reclassifications and income tax benefit (expense)	0.1	(6.7)	(6.6)
Amounts reclassified from accumulated other comprehensive income (loss)	—	4.8	4.8
Income tax benefit (expense)	—	0.4	0.4
Net current period other comprehensive income (loss)	<u>0.1</u>	<u>(1.5)</u>	<u>(1.4)</u>
Balance at December 31, 2019	<u>\$ —</u>	<u>\$ (54.2)</u>	<u>\$ (54.2)</u>

<i>(in millions)</i>	Investment Securities	Defined Benefit Plans	Total
Balance at December 31, 2017	\$ (0.1)	\$ (35.4)	\$ (35.5)
Other comprehensive income (loss) before reclassifications and income tax benefit (expense)	—	(15.3)	(15.3)
Amounts reclassified from accumulated other comprehensive income (loss)	—	2.6	2.6
Income tax benefit (expense)	—	3.6	3.6
Net current period other comprehensive income (loss)	<u>—</u>	<u>(9.1)</u>	<u>(9.1)</u>
Impact of adoption of standards update on tax effects related to accumulated other comprehensive income	—	(8.2)	(8.2)
Balance at December 31, 2018	<u>\$ (0.1)</u>	<u>\$ (52.7)</u>	<u>\$ (52.8)</u>

#### 15. FAIR VALUE MEASUREMENTS

Level 1 assets generally include U.S. government agency securities and investments in publicly traded mutual funds with quoted market prices. In general, the company uses quoted prices in active markets for identical assets to determine the fair value of marketable securities and equity investments. If quoted prices are not available to determine fair value, the company uses other inputs that are directly observable. Assets included in level 2 generally consist of asset-backed securities. Asset-backed securities are measured at fair value based on matrix pricing using prices of similar securities with similar inputs such as maturity dates, interest rates and credit ratings. Assets included in level 3 include certain investments and fixed assets.

Financial assets and liabilities recorded in the consolidated balance sheet as of December 31, 2019 and 2018 were classified in their entirety based on the lowest level of input that was significant to each asset or liability's fair value measurement.

<i>(in millions)</i>	At December 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value:				
Marketable Securities:				
Mutual funds	\$ 57.7	\$ —	\$ —	\$ 57.7
Asset-backed securities	—	0.3	—	0.3
Total	57.7	0.3	—	58.0
Performance bonds and guaranty fund contributions <sup>(1)</sup> :				
U.S. Government agency securities	898.2	—	—	898.2
Total Assets at Fair Value	\$ 955.9	\$ 0.3	\$ —	\$ 956.2

<i>(in millions)</i>	At December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value:				
Marketable Securities:				
Mutual funds	\$ 45.9	\$ —	\$ —	\$ 45.9
Asset-backed securities	—	0.3	—	0.3
Total Assets at Fair Value	\$ 45.9	\$ 0.3	\$ —	\$ 46.2

(1) Performance bonds and guaranty fund contributions on the consolidated balance sheet at December 31, 2019 include U.S. government agency securities purchased with cash collateral.

There were no level 3 assets or liabilities valued at fair value on a recurring basis during 2019 and 2018.

During 2019, the company recognized an impairment charge of \$3.1 million on an investment. The fair value of the investment was estimated to be \$0.9 million at the impairment date. The impairment loss was included within investment income on the consolidated statements of income. The company also recognized impairment charges of \$17.8 million on certain fixed assets. The fair values of the fixed assets were estimated to be zero at the impairment dates. The assessments were based on quantitative and qualitative indications of impairment. The fair value measurements of the investment and fixed assets are considered level 3 and non-recurring.

## 16. REGULATORY REQUIREMENTS

CME is regulated by the CFTC as a DCO and a DCM. DCOs and DCMs are required to maintain capital as defined by the CFTC in an amount at least equal to one year of projected operating expenses as well as cash, liquid securities, or a line of credit at least equal to six months of projected operating expenses. CME is in compliance with the DCO and DCM financial requirements.

## 17. SUBSEQUENT EVENTS

The company has evaluated subsequent events through March 13, 2020, the date the financial statements were available to be issued, and has determined that there were no subsequent events that required disclosure.