CME Group Statement on the Joint CFTC/SEC Report Regarding the Events of May 6

CHICAGO, Oct 01, 2010 /PRNewswire via COMTEX News Network/ -- CME Group supports the work of the Commodity Futures Trading Commission, the Securities and Exchange Commission and the Joint Committee on Emerging Regulatory Issues concerning the events of May 6, 2010. As the report details, fundamentally negative financial, economic and political events in Europe and elsewhere contributed to investor uncertainty and impacted participation and liquidity in all market segments at certain times that day.

Throughout the day on May 6, CME Group markets functioned properly. Our automated credit controls, order quantity limitations, stop and market order price protection points, price banding procedures, and stop logic functionality operated as designed and were effective in responding to challenging market conditions.

Futures and options markets are hedging and risk transfer markets. The report references a series of bona fide hedging transactions, totaling 75,000 contracts, entered into by an institutional asset manager to hedge a portion of the risk in its $75 billion investment portfolio in response to global economic events and the fundamentally deteriorating market conditions that day. The 75,000 contracts represented 1.3% of the total E-Mini volume of 5.7 million contracts on May 6 and less than 9% of the volume during the time period in which the orders were executed. The prevailing market sentiment was evident well before these orders were placed, and the orders, as well as the manner in which they were entered, were both legitimate and consistent with market practices. These hedging orders were entered in relatively small quantities and in a manner designed to dynamically adapt to market liquidity by participating in a target percentage of 9% of the volume executed in the market. As a result of the significant volumes traded in the market, the hedge was completed in approximately twenty minutes, with more than half of the participant's volume executed as the market rallied - not as the market declined. Additionally, the aggregate size of this participant's orders was not known to other market participants.

Additionally, the most precipitous period of market decline in the E-Mini S&P 500 futures on May 6 occurred during the 3½ minute period immediately preceding the market bottom that was established at 13:45:28. During that period, the participant hedging its portfolio represented less than 5% of the total volume of sales in the market.

Academic and empirical evidence has firmly established that stock index futures markets are significantly more liquid than alternatives, including broad-based index ETF markets. As a result, stock index futures markets typically function as the leading price indicator and fundamental broad-based equity market movements are generally first evidenced in CME's E-mini S&P 500 futures markets. The report also recognizes the inter-relationship of the E-mini S&P 500 stock index futures market and the highly correlated SPDR ETF markets.

CME Group supports all efforts to ensure market integrity and the protection of customer interests. We continue to advocate for the adoption of uniform procedures across all markets, and the highly fragmented cash securities markets in particular, in order to reduce the potential for market disruptions. In particular, we have urged regulators to:

1. Require uniform price limit policies across all equity and equity derivative markets.
2. Require the adoption of stop logic functionality or similar protocols to mitigate the impact of transitory liquidity gaps by briefly pausing the market. As described in the Report, on May 6th, CME's Globex stop logic functionality was triggered and trading of E-Mini S&P 500 futures contracts was paused for five seconds. This pause permitted market participants to provide much needed liquidity by entering, modifying or canceling orders, ultimately leading to the market rally that restored equilibrium in the equity markets that day.
3. Eliminate stub quoting procedures in cash equities markets whereby orders to purchase or sell valuable securities can be executed at a penny or a mere fraction of their true value.
4. Establish uniform and pre-established standards for busting or price adjusting clearly erroneous transactions.

CME Group will continue to work with the CFTC, the SEC and other exchanges and trading platforms and market participants to ensure the effective functioning of our country's world leading financial markets.

As the world's leading and most diverse derivatives marketplace, CME Group (www.cmegroup.com) is where the world comes to manage risk. CME Group exchanges offer the widest range of global benchmark products across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, agricultural commodities, metals, weather and real estate. CME Group brings buyers and sellers together through its CME Globex(R) electronic trading platform and its trading facilities in New York and Chicago. CME Group also operates CME Clearing, one of the largest central counterparty clearing services in the world, which provides clearing and settlement services for exchange-traded contracts, as well as for over-the-counter derivatives transactions through CME ClearPort(R). These products and services ensure that businesses everywhere can substantially mitigate counterparty credit risk in both listed and over-the-counter derivatives markets.

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