April 25, 2011

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2011-175

Dear Ms. Cosper:

CME Group Inc. (CME Group) appreciates the Financial Accounting Standards Board’s (the Board) invitation to comment on Selected Issues about Hedge Accounting (including the International Accounting Standards Board’s (IASB) Exposure Draft, Hedge Accounting).

CME Group includes four exchanges — Chicago Mercantile Exchange Inc., the Board of Trade of the City of Chicago, Inc., the New York Mercantile Exchange, Inc. and the Commodity Exchange, Inc. CME Group’s exchanges offer a wide range of derivative products, including futures and options based on interest rates, equity indexes, foreign exchange, energy, metals, agricultural commodities, and alternative investment products. CME Group also includes CME Clearing, a derivative clearing organization and one of the largest central counterparty clearing services in the world. CME Clearing provides clearing and settlement services for exchange-traded contracts as well as for over-the-counter (OTC) derivatives transactions. In addition, CME Group distributes real-time pricing and volume data through a global distribution network.

We support the Board’s efforts to converge U.S. standards with International Financial Reporting Standards and we believe this invitation to comment makes progress in that direction. Overall, we believe that the changes proposed by the IASB provide a better starting point for changes to U.S. GAAP as it relates to derivatives and hedging activities. We strongly encourage the Board to work closely with the IASB to address significant differences between the Board’s and the IASB’s proposals during the redeliberation process. We believe it is essential to the Board’s overall convergence efforts to develop one high-quality converged standard for derivatives and hedging activities.

Although we believe that the IASB proposal is a better starting point, the following comments address specific aspects of the proposal that we believe are particularly worthy of consideration by the Board either because they would significantly improve upon current standards or because they present a potential for adverse and anticompetitive consequences.

Changes to a Hedging Relationship
We agree that a company should discontinue hedge accounting only if and when the qualifying criteria cease to be met. However, we are concerned that there may be certain circumstances in which it will be ambiguous as to whether those criteria are met. For example, the IASB makes reference to a situation in which the counterparty to a hedging instrument “experiences a severe deterioration in its credit standing.” In such a situation, the hedge would no longer satisfy the hedge effectiveness criteria and hedge accounting would no longer be appropriate. We believe that additional guidance is needed as to
the circumstances in which increased counterparty credit risk should trigger a reassessment of hedge effectiveness for accounting purposes.

As evidenced by the lessons learned during the recent financial crisis, standardized, exchange-traded derivatives offer greater protection against counterparty credit risk through central clearing and offer the benefit of deep liquidity, a significant advantage when hedging relationships need to be rebalanced. The liquidity of exchange-traded markets also provides reliable measurement and transparency of prices, which facilitates fair value accounting. We believe that the current and proposed hedging standards compel derivative users to choose between using standardized derivatives and incurring ineffectiveness due to term differences, or using OTC derivatives and incurring higher levels of credit and liquidity risk as well as having less reliable pricing. Given current regulatory efforts to address the lack of regulation in the OTC markets, we believe that companies would be better-served by a hedge accounting standard that accounts for qualitative differences between OTC and exchange-traded derivatives.

**Hedge Effectiveness**

Overall, we agree with the hedge effectiveness requirements established in the IASB proposal, but we are concerned with the ambiguity of certain terms in the proposal.

The IASB notes that a “qualitative assessment” of hedge effectiveness may be possible in situations in which the hedging instrument and the hedged item “match or are closely aligned.” While the meaning of “match” appears clear enough, the meaning of “closely aligned” is open to broad interpretation. In the absence of more explicit guidance, we are concerned that companies will have a non-economic incentive to utilize hedging instruments that “match” the items to be hedged. As a result, companies could feel compelled to use customized OTC derivatives for hedging purposes rather than exchange-traded derivatives even in situations where the latter are preferable for all purposes except accounting. Uncertainty regarding the meaning of “closely aligned” could create a bias against exchange-traded derivatives even in situations where cost, economic effectiveness and liquidity indicate that these instruments better serve risk management needs.

Additionally, in the IASB’s proposal when the “critical terms” of the hedging instrument and hedged item are not “closely aligned,” a “quantitative assessment” must be utilized to determine whether the hedging relationship is “likely to achieve systemic offset.” We believe that the IASB’s proposed standard for “quantitative reassessment” leaves too much uncertainty as to how much “systemic offset” is enough to achieve hedge effectiveness. Once again, uncertainty could create inappropriate incentives to utilize customized OTC instruments in preference to exchange-traded derivatives.

**Hedged Items – Risk Components**

We believe that the IASB’s proposal to permit a company to hedge a risk component of a financial or nonfinancial item that is “separately identifiable and reliably measurable” represents a necessary change in hedge accounting in particular as it relates to managing commodity risks. This change would more closely align hedge accounting with a company’s risk management practices. We believe that financial and nonfinancial items should be treated similarly for hedge accounting purposes. We also believe that although it would be easier to identify hedge-eligible risks if they are contractually specified, this should not be necessary to qualify for hedge accounting.

**Risk Management**

Paragraph B38 of the IASB proposal states, “An entity’s risk management is the main source of information to perform the assessment whether a hedging relationship meets the hedge effectiveness
requirements.” We support the proposal’s objective to align hedge accounting requirements with risk management. We believe that this principles-based approach lays a foundation for financial statements that are more reflective of a company’s risk management activities. However, if a company’s risk management policies and practices are to be the main source for assessing hedge effectiveness, we believe that more guidance is needed as to when and how those policies and practices are to be utilized.

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We appreciate the opportunity to provide our comments on the proposed guidance. If you have any questions regarding our comments, please contact Jim Pieper at 312.559.4968 or Rose Cammarata-Barr at 312.648.5452.

Regards,

James V. Pieper
Managing Director and Chief Accounting Officer

Rose Cammarata-Barr
Associate Director, Financial Reporting