ONTARIO SECURITIES COMMISSION

OSC Staff Notice 11-784 Burden Reduction

The OSC is seeking suggestions on ways to further reduce unnecessary regulatory burden, as provided in OSC Staff Notice 11-784.

We invite your comments on the Staff Notice through the survey below. Please note that each question has a 4000 character response limit.

Closing date: March 1, 2019

Thank you for sharing your thoughts with the OSC Burden Reduction Task Force.

* Required

1. Please provide your name. *

   John McKinlay

2. What is the name of your firm or company, if applicable?

   CME Group Inc.

3. What is your role in the capital markets? *

   Registrant

4. Do you have any general comments on the topic of regulatory burden reduction related to securities regulation? If so, please enter only the legislative reference for your suggestions in the box below (for example 31-103 1.1)

   National Instrument 94-102 Derivatives: Customer Clearing and Protection of Customer Collateral, Sections 36, 43 and 44. National Instrument 24-102 Clearing Agency Requirements, Sections 2.2(5) and 2.5(2).

5. Please use the space below to provide your general comments.

CME Group has long advocated for regulators to permit local participants' access to offshore markets or FMIs under the concepts of substituted compliance and mutual recognition. Such recognition frameworks facilitate cross-border transactions in the global marketplace by reducing the need for participants and market infrastructures to harmonize multiple or conflicting regulatory regimes and the duplicative procedural burdens resulting from their concurrent application.

As the OSC recognizes, clearing infrastructure and service providers for Canadian participants in OTC derivatives markets are largely concentrated outside of Canada, primarily in the United States and the European Union. Certain OSC regulations and National Instruments applicable to exempt clearing agencies create the potential for regulatory overlap and duplicative requirements with home country requirements. CME Group notes that U.S.-based exempt clearing agencies are subject to a home-country regulatory regime that has already been deemed substantially comparable to the Canadian regime so there is a strong basis for increased deference to CFTC regulatory oversight.

We believe the activities of CME Clearing involving local Canadian counterparties are already subject to CFTC standards that meet equivalent outcomes for customer protection and soundness as those set forth in NI 94-102 36, 43 and 44 and NI 24-102 2.2(5) and 2.5(2). As such, we believe substituted compliance for an exempt clearing agency subject to CFTC regulation is appropriate with respect to these provisions.

And as a general matter, we would also encourage the OSC to harmonize its requirements with other provincial regulators to the extent possible and to further mitigate the potential for duplicative or burdensome regulatory requirements.

6. Are there operational or procedural changes that would make market participants' day-to-day interaction with the OSC easier or less costly? If so, please enter only the legislative reference for your suggestions in the box below.

Section 147 of the Securities Act (Ontario).

7. Please use the space below to provide your suggestions for operational or procedural changes.

CME Group and its regulated subsidiaries do not typically have day-to-day interactions with the OSC. However, CME has ongoing reporting requirements due to its status as an exempt clearing agency under Section 147 of the Securities Act.

While CME Group supports transparency for regulators, we believe that information-sharing should be designed and implemented in a way that minimizes costly or duplicative reporting requirements. CME staff devote approximately 175 hours per year to OSC reporting. We believe that expanding the degree of deference to already-comparable CFTC regulations would help to reduce reporting burdens for registrants and the potential for regulatory overlap.

As one component of reducing such burden, we encourage the OSC to refer to public information where available. For example, certain items required under CME's order of exemption and which are available on the CME Group website include: up-to-date listing of clearing members, custody banks and notices of disciplinary actions. Similarly, CME's Disclosure Framework for Financial Market Infrastructures published by CPMI-IOSCO ("Disclosure Framework") is available on the CME Group website and updated in accordance with the schedule established in CFTC regulations.

8. Are there ways in which we can provide greater certainty regarding regulatory requirements or outcomes to market participants? If so, please enter only the legislative reference for your suggestions in the box below.

National Instrument 94-102 Derivatives: Customer Clearing and Protection of Customer Collateral, Sections 36 and 44. National Instrument 24-102 Clearing Agency Requirements, Section 2.2(5).

9. Please use the space below to provide your suggestions regarding how the OSC could provide greater certainty regarding regulatory requirements or outcomes.

We support the OSC using substituted compliance determinations to minimize compliance burdens for equivalently regulated foreign market clearing providers. We encourage the OSC to take an outcomes-based approach to substituted compliance determinations without requiring strict equivalence with the requirements of NI 94-102 36 and 44 and NI 24-102 2.2(5) and 2.5(2). As noted below, we believe the CFTC requirements applicable to CME are sufficiently comparable to permit a greater degree of deference to the home-country regime in these areas.

10. Are there forms and filings that issuers, registrants or other market participants are required to submit that should be streamlined or required less frequently? If so, please enter only the legislative reference for your suggestions in the box below.

National Instrument 24-102 Clearing Agency Requirements, Section 2.2(5).

11. Please use the space below to provide your suggestions regarding forms and filings.

Section 2.2(5) of NI 24-102 requires each exempt clearing agency notify the OSC in writing of any material change to its Disclosure Framework. CFTC Regulation §39.37 requires CME Clearing to complete and publicly post its Disclosure Framework and to update it at least every two (2) years and following material changes to CME's practices and environment in which it operates. Although standards for demonstrating compliance with PFMI vary across international financial centers, deference to the home-country regulatory requirement is a generally accepted practice among these financial center regulatory frameworks and we strongly support this approach. Accordingly, we request that the OSC permit substituted compliance and provide that an exempt clearing agency's updating of its Disclosure Framework in accordance with the

requirements of its home-country regulator be deemed adequate to meet this requirement.

See also generally below.

12. Are there particular filings with the OSC that are unnecessary or unduly burdensome? If so, please enter only the legislative reference for your suggestions in the box below.

National Instrument 94-102 Derivatives: Customer Clearing and Protection of Customer Collateral, Sections 32(2) and 43.

13. Please use the space below to provide your comments regarding burdensome filings.

NI 94-102, Section 43 requires a clearing agency to report information on Canadian customer collateral deposits. The OSC appears to receive this and additional information from clearing intermediaries and thus the submissions by exempt clearing agencies are duplicative and unnecessarily increase the potential for error.

To facilitate standardized collection of the information required under Section 43 the OSC developed Forms 94-102F1, F2 and F3. Clearing intermediaries submit information on Form 94-102F1 or F2, as applicable, on a monthly basis. Regulated clearing agencies submit Form 94-102F3 on a monthly basis. Form 94-102F3 consists of general information and two tables: Table A and Table B.

Form 94-102F3 – Table A is to be completed by each regulated clearing agency that receives customer collateral from a direct intermediary. CME calculates the overall collateral requirement required for an omnibus customer account of a direct intermediary but, unlike such intermediaries, CME does not have visibility into the collateral holdings of an individual customer. Each direct clearing intermediary is already required, as a matter of best practices and obligations under Form 94-102F1, to track customer collateral requirements per clearing agency in addition to more granular, per-customer information. As such, CME believes that the OSC receives all necessary information directly from the appropriate source already—the clearing intermediaries—and that regulatory burdens on exempt clearing agencies could be reduced by eliminating the Form 94-102F3 reports and relying solely on Forms 94-102F1 and F2. CME extracting this data unnecessarily introduces the potential for discrepancies between its information and the clearing intermediary's data, which shows a more fulsome picture of the customer's collateral profile, including excess amounts collected and held by the intermediary. Further, the manual input of information necessary to complete Table A increases the potential for human error.

Form 94-102F3 – Table B requires each regulated clearing agency to provide information for each depository where (Canadian) customer collateral is held. As noted in CME's comments to NI 94-102, U.S. LSOC requirements only require a DCO to record the value of customer collateral held in satisfaction of clearing house margin requirements. The U.S. regime does not necessitate asset tagging

so there is no tracing of individual pieces of collateral to the posting customer or to the depository at which the assets are eventually held. Collateral posted by a Canadian customer to its direct intermediary may be passed to the exempt clearing agency, held by the clearing intermediary (as excess collateral), or transformed into another form of collateral and posted to the exempt clearing agency. With respect to the former, the collateral could be held at any of the depositories CME lists on its website – the lack of asset tagging/tracing does not permit more precision than this so CME has simply listed its permitted depositories to meet its Table B reporting requirement. As such, CME Group believes that completing Table B is unnecessary and offers no detail beyond that which is available on its public website. And since the information at Tables A and B can already be sourced elsewhere, with greater reliability, we respectfully submit that the requirements of Section 43 should no longer apply to U.S.-based exempt DCOs, whether through an amendment to the instrument, regulation or substituted compliance determination.

14. Is there information that the OSC provides to market participants that could be provided more efficiently?

15. Are there requirements under the OSC rules that are inconsistent with the rules of other jurisdictions and that could be harmonized? If so, please enter only the legislative reference for your suggestions in the box below.

National Instrument 24-102 Clearing Agency Requirements, Section 5.1(2).

16. Please use the space below to provide your comments and suggestions around harmonization of rules.

NI 24-102, Section 5.1(2) contemplates a seven-year period for retention of records for all regulated clearing agencies that fall within its scope. CME Group would note that the equivalent record keeping requirements under applicable US laws is five years. While we understand that a seven-year requirement may apply in other areas of Canadian securities regulation, we believe the regulatory burden associated with requiring two additional years for regulated clearing agencies doing business with local Canadian counterparties requires additional operational builds, controls and compliance requirements, which increases costs and offers a disincentive to offer clearing services into Canada. We would request that the OSC consider reducing the retention period from seven years to five years or, in the context of granting substituted compliance determinations, permit home-country record retention requirements to suffice for purposes of compliance by U.S.-based exempt clearing agencies.

17. Are there specific requirements that no longer serve a valid purpose? If so, please enter only the legislative reference for your suggestions in the box below.

18. Please use the space below to provide your comments and suggestions around requirements that may no longer serve a valid purpose.

19. Are there ways to enhance and improve how investors experience disclosure provided: (i) before they invest; (ii) as part of ongoing public disclosure; and (iii) by registrants?

20. Please use the space below to provide your suggestions for modernizing information provided to investors because of regulatory requirements. For example, specific areas where we could promote the use of plain language?

21. Do you have any other comments for the OSC Burden Reduction Task Force?

22. If you don't have enough space for your response to any question above, please use the space below to continue your comments. Please indicate which question these comments relate to.