

**Bryan Durkin Speech to NCBA
Friday, February 3, 2012**

Thank you, Paul, for that kind introduction.

I'd like to thank you for your gracious invitation to speak here today. Farmers and ranchers are among our country's greatest resources. I'm very happy to be addressing you and this Live Cattle Marketing Committee.

I know there are always a lot of concerns on the minds of beef producers as it relates to hedging and futures markets, but certainly this year presents a different level of difficulty given the failure of MF Global last fall. I'm here to share with you the CME Group perspective on things, and provide some updates, and hope that I address all of your concerns.

As hedgers, you experienced an unprecedented shock to the market a few months ago with the bankruptcy of MF Global, and the shortfall in customer-segregated funds.

In the wake of that event, we've heard the concerns of NCBA members, and I know some of you are wondering about the long-term safety of futures; and more immediately, about whether or not you'll see money you invested with MF Global returned in full.

Those two things – the protection of our customers, and the integrity of our markets – have been our primary concerns throughout this process.

And I'm happy to say that, just yesterday, we took an important first step in strengthening protections for customer funds in the future. Some of you may have read about our Family Farmer and Rancher Protection Fund, which – in the case of a FUTURE insolvency of a clearing member or market participant causing customer losses – will provide up to 25 thousand dollars to individual farmers and ranchers and 100 thousand dollars to co-ops that hedge their risk in CME Group futures markets as a means to help offset those losses. I'll discuss this fund more in a moment, but would first like to briefly review the MF Global situation overall.

For a very long time – about 150 years – farmers, ranchers and agribusiness never worried about the safety of their money when hedging on futures exchanges. And at the clearing house, where \$2.2 billion of your money was held, the fact is the system continued to work.

At the firm level, however, MF Global violated the system, and many of you are now awaiting the return of funds. And if you're affected by this situation, we understand that the farmers, other ranchers and lenders you do business with are affected too. For you to do your job, they must have confidence in the futures markets' ability to manage price risk. This has been an industry-wide blow to the heart of commodities markets – agricultural producers, processors and distributors. And that blow was dealt by the violations committed by MF Global.

As MF Global's primary exchange operator, and one of its regulators, CME Group has faced a lot of questions following MF Global's failure about how a shortfall in customer funds occurred, about the security of our clearing operation, and most importantly, about what needs to be done to restore confidence in the system.

Though at times it may feel like progress has been slow – and admittedly we all would like to see customer money returned far more quickly – I think it is important to point out that we have accomplished a great deal since the bankruptcy on October 31.

We've acted aggressively – and with as much speed as possible – to share information with customers and give them full access to their accounts. In the week following the bankruptcy filing, after bankruptcy court approval, we successfully transferred 15,000 accounts and \$1.45 billion dollars.

Within two weeks of the filing, we offered a \$250 million dollar guarantee to the trustee so that he could accelerate the distribution of funds to customers without a loss to the bankruptcy estate. A week later, we increased this guarantee to \$500 million. We also announced that the CME Trust, which was established in 1969 to offset losses from a potential clearing member insolvency, would be pledged to help offset losses suffered by CME Group customers in the case of MF Global.

We offered these guarantees not because we were required to do so, but because we felt it was the right thing to do. We are in uncharted territory. And we felt an inherent responsibility to our customers to help them receive distributions as quickly as possible.

Since the time we offered the guarantee, the Trustee has made two more distributions of customer funds – both, he has said, were made possible because of our guarantees. The process of returning warehouse receipts to customers also has begun.

As a result of these actions, MF Global customers – not just CME Group customers, but MF Global customers overall – now have a total of 72 percent of their balances. Again, though this indeed feels like slow progress, I think we do need to regard it as important steps in the right direction.

THE PATH AHEAD

Let's turn to the path ahead from here. MF Global's transfer of segregated funds out of the appropriate accounts constitutes serious violations of our rules and of the Commodity Exchange Act. And we are currently cooperating with federal agencies investigating MF Global.

But we recognize that these investigations, while important, are not the chief concerns of those who lost funds.

There are a lot of facts that need to be sorted out. But we do know that right now our industry needs to focus on solutions that protect customer funds at the firm level.

That's why we took the important FIRST step we did yesterday. The Family Farmer and Rancher Protection Fund will provide an additional measure of security for customer segregated funds that is specifically aimed at the farmer and rancher community, including many of you here today.

Under the fund – which we expect to be available March 1 –farmers, ranchers and co-ops hedging on our exchanges will be eligible for additional protections in the case of a future insolvency, as I mentioned a few moments ago.

The fund is valued at \$100 million dollars. If losses in a future failure total more than \$100 million, participants will be eligible for a pro-rata share of the fund, up to \$100 million. The fund is expected to be backed by an insurance policy and will not be available retroactively. By establishing this fund, we are not suggesting that a case similar to MF Global's failure is likely to happen again. Far from it. The fact is, MF Global found a way to violate a system that had worked flawlessly for 75 years. We are making sure that – in the critical role you play in our markets and in feeding the world – you do not again find yourselves in the position that you did in the weeks following MF Global's collapse.

We know additional steps will be necessary when all the facts of this case are available. And we recognize that a holistic solution will be needed – one that touches all aspects of the marketplace.

In that regard, we believe that all viable alternatives should be up for consideration. If there's a responsible proposal for further protecting funds held at the firm level, we're eager to explore it.

We're working with the industry to evaluate any and all proposals. As you may have seen, CME Group is part of the National Futures Organization and the Futures Industry Association efforts to recommend additional solutions for protecting customer funds at the firm level. I can assure you that these efforts will be exhaustive, and that we look forward to working with the entire community to do as much as we can to prevent another MF Global from happening again.

A FINAL WORD

As I said at the outset, you represent one of this country's greatest resources.

Not only do you trade in live cattle or feed grains, those of you in this audience are investing significant capital to produce, store, process, and deliver them. You do all of this with no promise of things like good health for your livestock, favorable regulation, or consistent market conditions in other parts of the world.

We understand the significant risk you face. It's why we exist. So when – in an effort to manage all this risk – you lose funds – even temporarily – that's troubling. And it's our responsibility to restore your confidence.

Going forward, we will continue to work with industry groups like the NCBA to evaluate the lessons of this experience, and ensure that, in the future, the industry continues to establish greater protections for customer funds at the firm level.

Thank you very much for your time. I'm happy to take any questions you might have.