

The Growth of OTC Energy Derivatives: What's Next?

Commodity Markets Council

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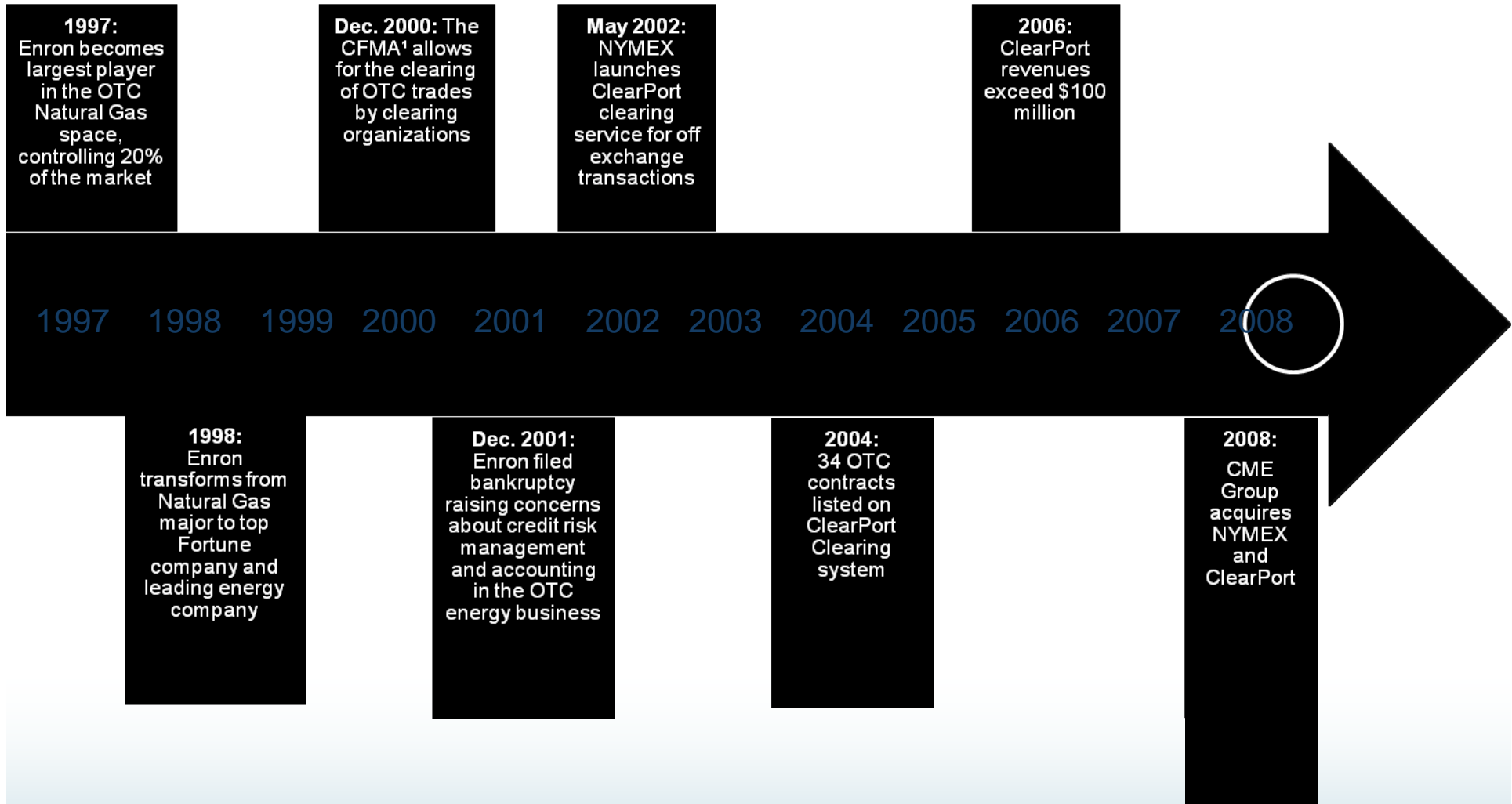
Continued Upheaval in Commodity Markets Followed by Major Credit Market Problems

- **Due to recent economic changes, customers are forced to change trading and hedging habits**
- **New risk issues from financial institutions – no counterparty is safe**
- **Clearing of OTC contracts in a central counterparty clearing model continues to grow and now dominates energy derivatives market**
- **CME Group continues to innovate with new risk management tools for our global customer base**

Current State of Energy OTC Derivatives Markets

- **US OTC energy derivatives markets now predominantly cleared**
- **European energy traders continue to extend bilateral credit to counterparties – not anymore**
 - Europe and Asia move from less than 5% to over 80% cleared in 3-4 weeks
- **Fractured clearing and trading systems across Europe do not help problem - consolidation necessary**
- **OTC Brokers – What role should they play in increasing liquidity? Why has the U.S. model worked? How do they help?**
- **Global oil markets are moving toward the “cleared” model**
 - Success exemplified by CME Group’s Singapore Fuel Oil cleared swaps
 - Today CME ClearPort clears 80% of Global Resid Markets

CME ClearPort History & Background



¹Commodity Futures Modernization Act of 2000

CME ClearPort Overview

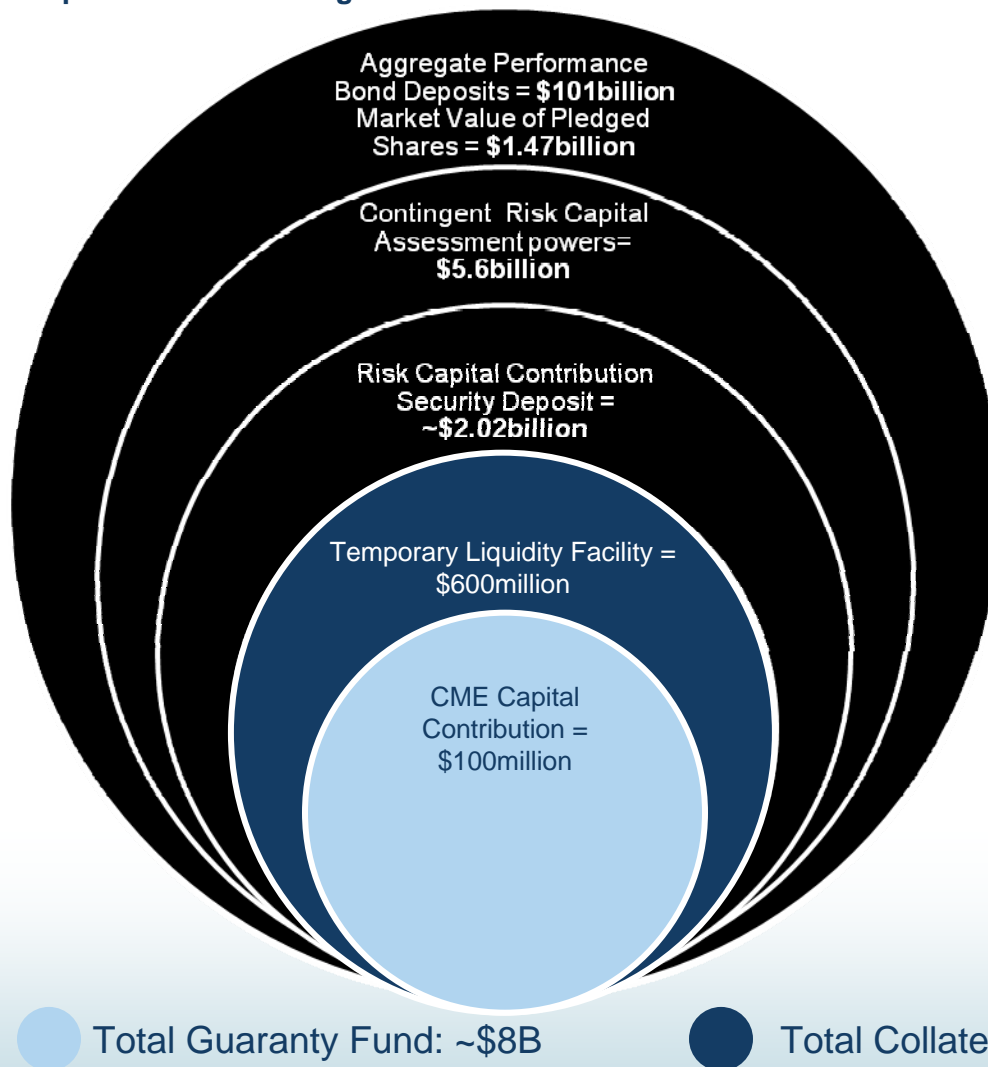
- **Provides globally distributed system to enter transactions executed OTC as well as non-competitively executed futures transactions (Blocks, EFS, EFPs, EOOs)**
 - All contracts currently are futures or options contracts subject to 4D Segregation
- **Users can enter trades via three ways:**
 - ClearPort Internet based portal via a broker or end user
 - Directly through an API that connects to CPC
 - Over the phone to the facilitation desk in New York
- **Once an OTC executed transaction is approved/accepted by the RAV credit controls system it is automatically replaced with a standardized exchange futures contract**
- **Over 2,000 active companies registered with 6500 users worldwide**
- **CME ClearPort has over 600 products listed with ADVs over 500,000 contracts**

How Do We Manage the Risk?

- **All CME ClearPort contracts are cleared as regulated futures or options Contracts**
- **Current CME ClearPort contracts are subject to 4D Segregation**
- **Market users of CME ClearPort cleared contracts can either directly submit their trade information to the portal or have it submitted for them by voice brokers who are registered and authorized to submit such trades**
- **We maintain an active incentive plan that rebates revenue to the Voice Broker community**

CME Group's Aggregate Financial Resources: \$100B Including \$~8B Guaranty Fund

Financial safeguards are designed to anticipate potential market exposures and ensure sufficient resources are available to cover potential future obligations



Total Safeguard Package Overview

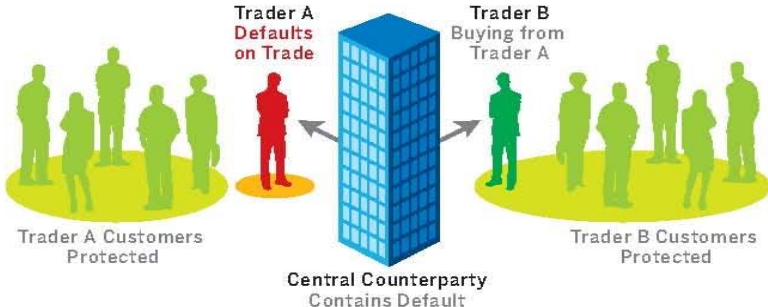
- Aggregate Performance Bond Deposits: Performance bond requirements are good faith deposits to guarantee performance on open positions and are often referred to as "margin"
- Market Value of Pledge Shares
- Risk Capital Contribution Security Deposit: The amount firms contribute to the guarantee fund in proportion to their volume and open interest with adjustments being made by CME Clearing on a quarterly basis
- CME Capital Contribution: Each month, the Chief Financial Officer determines the maximum amount of surplus funds that CME Clearing could contribute to satisfy any remaining default obligation, while retaining a prudential amount of working capital for continuing Exchange operations
- Contingent Risk Capital Assessment Powers: CME Clearing's right to assess clearing members for any unsatisfied obligations. The balance of the unsatisfied default is allocated among the clearing membership, and based on each clearing member's share of the Security Deposit Pool
- Temporary Liquidity Facility: CME Clearing has an \$600,000,000 fully secured, confirmed line of credit agreement with a consortium of domestic and international banks that is expandable to \$1 billion under an accordion feature

In over 110 years, CME Clearing has never defaulted on its obligations, and no party has ever defaulted to CME Clearing

HOW CLEARING MODELS MANAGE RISK

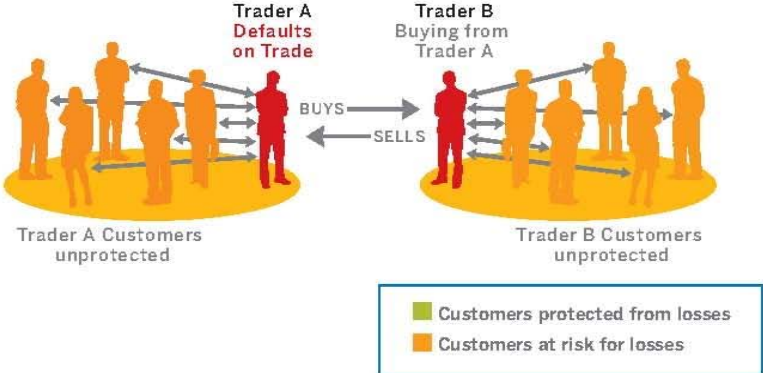
With a central counterparty model, the clearing house is the buyer to every seller and the seller to every buyer. So, if Trader A defaults, the default is contained between Trader A and the clearing house, protecting everyone in the green circles below.

CENTRAL COUNTERPARTY MODEL



The over-the-counter market's bilateral model works differently. If Trader A defaults, neither Trader A, Trader B, nor the others they transact business with are protected from that default, leaving everyone in the orange circles at risk.

BILATERAL MODEL

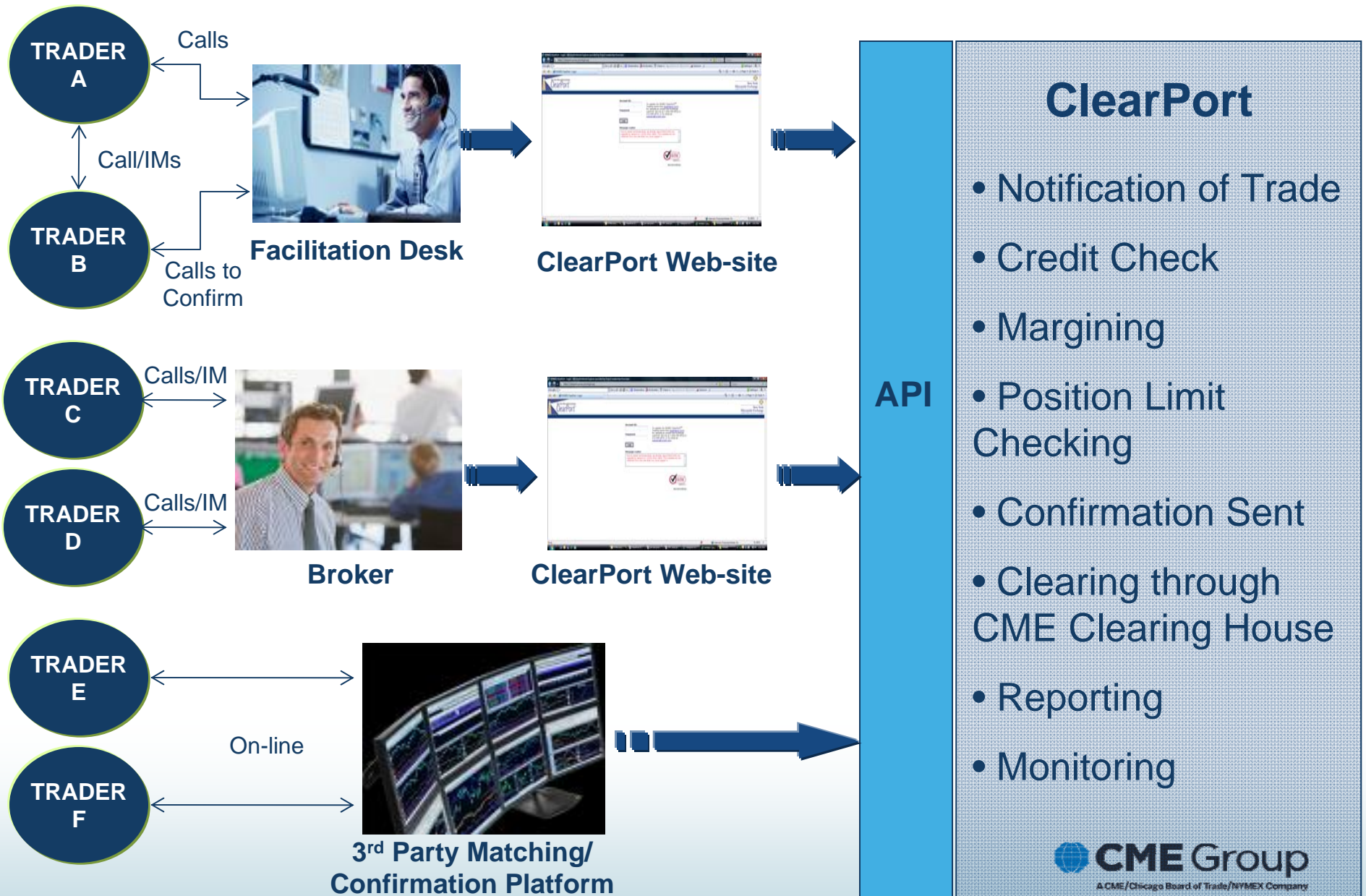


Benefits to our Customers

CME ClearPort Customer Value

- **Mitigation of counterparty credit risk**
- **No bilateral netting agreements or ISDA necessary**
 - **Ability to transact with any company registered**
- **Portfolio management**
 - **Reduces capital requirements**
- **Supports flexible and quick new product introductions**

CME ClearPort Business Model



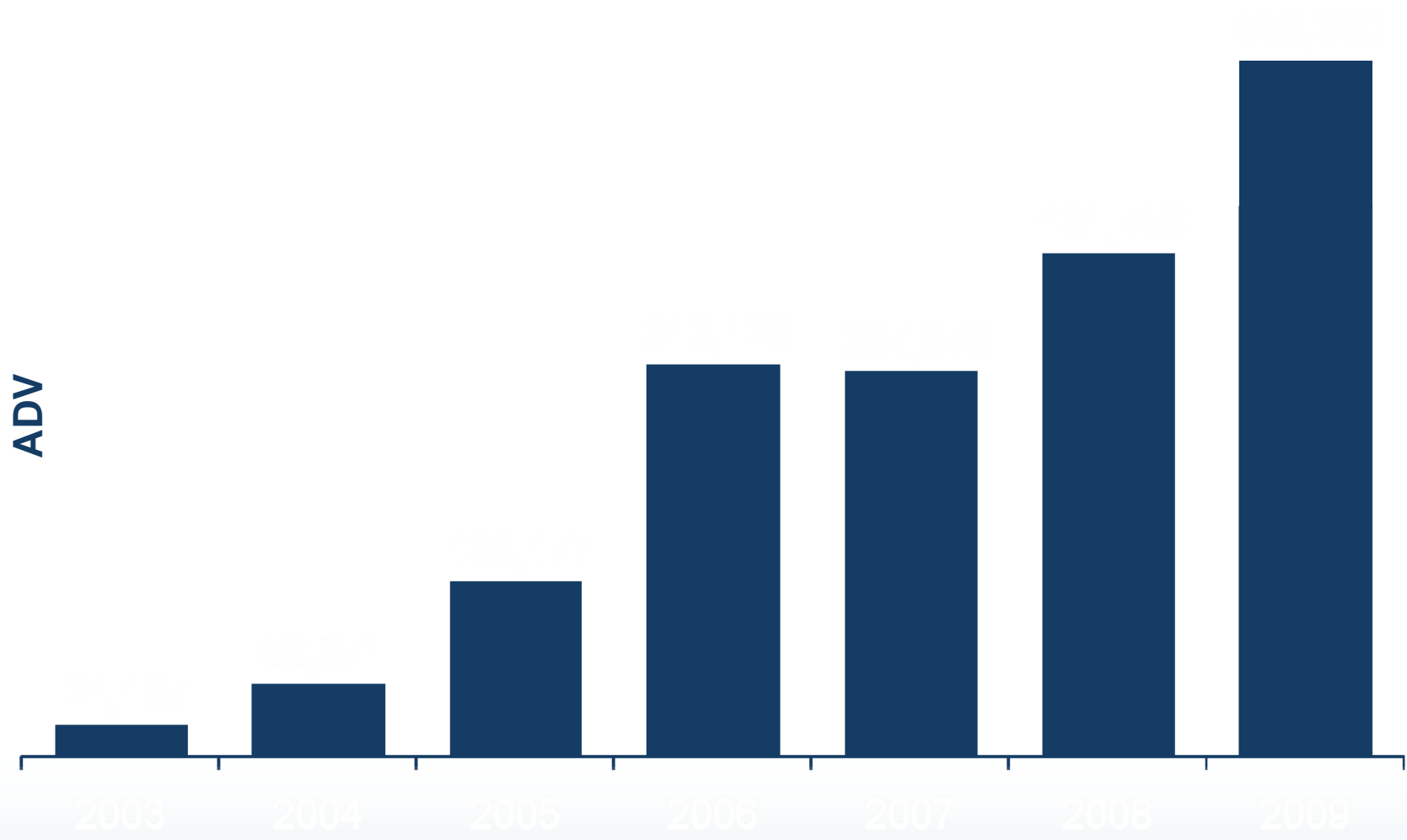
Connecting to our Customers

- **5,362 unique trader log-ins***
 - Commercial, banking and trading entities
 - FCM and clearing firms
- **Inter-dealer brokers (188 firms entered trades in 2008)**
- **Service providers:**
 - Confirm systems: Confirm Hub; OTC Holdings;
 - Data Provider firms: Argus, Platts and Dow;
 - Electronic Bulletin Boards: Houston Mercantile Exchange, Houston Street, TradeCapture, Marco Polo, LiquidityPort, AgoraX, EOX, EBS, and Trayport (soon)
- **Routing and messaging systems: Pivot**
- **Other exchanges: Green Exchange, DME, possibly Imarex**

* As of September 30, 2008

Current Performance & Future Opportunities

CME ClearPort ADV Growth By Year



Key ClearPort Statistics

- **Volume 2008 = 118 million contracts**
 - Growth from 2007 = 40%
 - **ADV today is averaging over 500,000 contracts cleared per day**
- **Clearing during Asia hours grown 350% in Q4 '08 vs Q4 '07**
- **Top Volume producing products: Henry Hub Natural Gas Swaps, Natural Gas European-Style Options , Light Sweet Crude Oil European-Style Options**
- **Total user base has grown by 25% in 2008**

What's Next

- **Legacy CBOT Ethanol Swaps contracts are now available on CME ClearPort**
- **We expect to launch several cleared-only OTC contracts across asset classes on CME ClearPort**
- **Corn, Wheat, Soybean Calendar Swaps and Corn Basis Swaps are expected to launch on CME ClearPort, pending CFTC approval**
- **Also pending approval, CME Group will offer clearing and migration for the most complete range of Credit Default Swaps (CDS) products**
 - To include standard single name coupons
 - Covering over 75% of the market
 - For more information please see our website at www.cmdx.com or e-mail questions to info@cmdx.com
- **Potential OTC open-clearing solutions to be available for other CME Group products in the future**

Questions