CME Group

November 9, 2012

Institutional Shareholder Services
policy@issgovernance.com

Subject: Open Comment Period: Management Say-on-Pay Proposals (U.S.)

To Whom It May Concern:

We appreciate the opportunity to respond to ISS's 2013 Draft Policy Updates on behalf of CME Group, the world's leading and most diverse derivatives marketplace. As staff members responsible for supporting the Compensation and Governance Committees, we are very much interested in the analysis provided to shareholders for purposes of voting their shares.

We note that ISS has shown responsiveness in attempting to address some of the concerns raised by corporate issuers and investors in the last proxy season through its draft policies. While more detail is needed to thoroughly evaluate the proposed policies, we are providing comments based on the information made available to date.

There is not one surefire way to analyze executive compensation. The most effective compensation programs are tailored to the unique business strategies and goals of the company. Through a balance of short- and long-term incentives, companies seek to motivate and reward both short- and long-term performance. One must look at executive compensation programs through several lenses before judging their effectiveness. And, one must consider unique company circumstances and their impact on pay decisions.

Peer Group Construction

Designing an appropriate peer group to benchmark pay and performance requires art in addition to science. A peer group should reflect a company's competitors for business, talent and investor dollars. While the proposal to use a company's selected peers' GICS industry groups within size constraints in ISS's relative analysis seems to be an improvement over past practice, according to the 2012-2013 policy survey results, the majority of both issuers and investors cited that in addition to its own peer group, ISS should provide the company's peer group as an alternative view. As such, we encourage ISS to include the company's disclosed peer group as an additional comparison.

When considering measures used for peer group selection, we encourage ISS to review the individual facts and circumstances of the company. For example, CME Group is considered a financial services company. But, unlike banks and some other financial services companies where assets may be the best measure of size, for financial exchanges where the objective is to collect clearing and transaction fees, revenues are a better reflection of size.

In terms of appropriate size constraints for peer group selection, in general, a range of .5 to 2x the company's revenue/market cap seems to create a reasonable range of peers. However, it should be noted that while it is often a typical practice to try to position a company at the median of its peer group in terms of both revenue and market cap, it is not always possible to achieve that result given the uniqueness of each company and business model.

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Realizable Pay

In order to truly understand the pay and performance alignment, it is important to look at the value of compensation realized/realizable over the specific time period for which one is measuring performance. We note that the proposal to include realizable pay in the pay-for-performance analysis appears to be an improvement over the previous practice of only looking at grant date pay. However, because ISS is proposing to only include a comparison of realizable pay to grant date pay in the secondary qualitative review when a company fails its quantitative test, it will not adequately address the concerns of issuers and investors. If grant date pay and realizable pay are both considered important, they should both be considered in the quantitative test. This should not be limited to large cap companies, but should apply to companies of all sizes.

In determining realizable pay:

- *For stock options*: ISS should consider the value realized upon exercise during the period as well as the intrinsic value of outstanding, in-the-money stock options at year end, as that represents the value the executive could have realized at that point in time should the time-based vesting be satisfied. The Black-Scholes value is not adequate in a pay-for-performance analysis.
- *For restricted shares*: ISS should consider the value realized on vesting for any shares that vested during the time period, as well as the value of all outstanding restricted shares based on the stock price at year end, as that represents the realized and potential value of the time-vested shares.
- *For performance shares*: ISS should only consider the value realized on shares earned following the completion of the performance period, and not target shares, as most performance share designs include the ability to earn a range of shares (typically 0-150% or 200% of the target shares) based on actual performance. Using a target number of shares is not adequate as it can either greatly understate or overstate the value of performance shares actually earned/realized based on the achievement of performance goals.

Pledging of Company Stock

We respectively request that ISS reconsider its proposal to add pledging of company stock as a problematic pay practice that would carry significant weight in its consideration of a company's say on pay proposal and that alone could cause a negative vote recommendation.

In 2006, the Securities and Exchange Commission updated its proxy disclosure rules to include disclosure regarding the amount of the beneficially owned shares that an individual director or executive officer had pledged to a third party, if any. We think such disclosure provides additional transparency in assessing an individual's stock ownership to assess their alignment with shareholder interests. We recognize the investor concern over this practice in egregious circumstances in which a significant percentage of an individual's shares are pledged which also represents a significant portion of the company's outstanding shares. However, such egregious practices should not lead to an overall policy for all public companies. Moreover, we do not believe that a company's failure to prohibit such activity is a problematic pay practice. Including such a policy could result in an unjustified increase in the number of failed say-on-pay proposals which voting results would not be tied to the actual pay practices at an organization. Ninety-three percent of our Board members own shares in excess of our stock ownership guidelines. From time to time, we may have directors who utilize a portion of their shares for margin purposes or as security for a personal loan. We do not believe that their use of such shares is evidence of a pay for performance issue.

In the event that ISS determines that it should include pledging of shares in its policies, we are recommending the following:

- Any pledging or failure to adopt an anti-pledging policy should be included among other governance issues in the GRID analysis rather than as a pay-for-performance issue

- A distinction should be made between pledging and hedging policies. In the case of pledging, the interests of the individual continue to be aligned with shareholder interests as compared to hedging which limits an individual's upside/downside

- Reasonable and limited share pledging arrangements should be allowed

- Grandfathering of any existing pledging arrangements should be allowed to provide an issuer with the ability to reasonably exit the practice

In closing, we appreciate the opportunity to provide comments on ISS's 2013 Draft Policy Updates on behalf of CME Group. We trust that the comments provided will be taken into consideration as policies are finalized. Should you have questions or concerns, please feel free to contact either of us at the number provided below.

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