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## Potential CME rival trades up

By Ann Saphir  
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A Wall Street-backed startup aiming to take on futures kingpin CME Group Inc. has moved a step closer to that goal after reaching a trade-backing agreement with Options Clearing Corp.

Electronic Liquidity Exchange, or ELX, and Chicago-based OCC recently signed a letter of intent that includes a seven-figure payout to help fund OCC's development costs, according to several sources familiar with the plans.

Clearinghouses such as OCC are essential for exchanges, financially guaranteeing the contracts that change hands between banks, brokers and other customers.

The looming competition comes at a difficult time for CME, whose shares have plunged 75% from a record \$710.78 last December, ending Friday at \$175.78, as global financial turmoil curbed business in the exchange's benchmark interest rate-based products.

ELX plans to file for regulatory approval in coming weeks, the sources say, and launch trading in contracts based on Treasuries by March.

Representatives of ELX and OCC decline to comment. A CME spokesman, asked about the latest ELX move, says CME "thrives" on competition.

OCC, founded in 1973 and the world's biggest derivatives clearinghouse, is primarily a backer of stock-options trades, but it is expanding. Earlier this month, OCC agreed to guarantee NYSE Euronext's new futures exchange.

ELX, which this month tapped former American Stock Exchange leader Neal Wolkoff as CEO, is one of several competitive challenges for CME.

Both CME and its largest domestic rival, Atlanta-based IntercontinentalExchange Inc., are angling for a slice of the market for credit-default swaps, complex derivatives partly blamed for the recent financial upheaval. By mid-December, CME and ICE are expected to receive regulatory approval to clear swaps contracts.

ELX, whose backers include Citigroup Inc. and J. P. Morgan Chase & Co., had been in discussions to sign a deal with Clearing Corp., also Chicago-based. But ICE bought Clearing Corp. this month.

Still, ELX faces an uphill battle against CME, which controls more than 90% of futures trading in the United States.

Three other startups have failed in recent years to break into Treasury futures, and many industry veterans are skeptical ELX will succeed.

"Historically, it's never worked," says Michael Gorham, a former futures regulator and head of the Stuart Center for Financial Markets at the Illinois Institute of Technology.

"Once you've got serious liquidity at an exchange," he says, "it has proven almost impossible to carve into that liquidity and win serious marketshare unless the new exchange has some incredible advantage."

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