

**SUBMISSION COVER SHEET**

**IMPORTANT:** Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 16-056

Organization: Chicago Mercantile Exchange Inc. ("CME")

Filing as a:  DCM  SEF  DCO  SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): February 5, 2016 Filing Description: CME Clearing Advisory Notice for Performance Bond Collateral Categorization Changes

**SPECIFY FILING TYPE**

Please note only ONE choice allowed per Submission.

**Organization Rules and Rule Amendments**

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

Rule Numbers: See filing.

**New Product**

Please note only ONE product per Submission.

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

Official Product Name:

**Product Terms and Conditions (product related Rules and Rule Amendments)**

- Certification § 40.6(a)
- Certification Made Available to Trade Determination § 40.6(a)
- Certification Security Futures § 41.24(a)
- Delisting (No Open Interest) § 40.6(a)
- Approval § 40.5(a)
- Approval Made Available to Trade Determination § 40.5(a)
- Approval Security Futures § 41.24(c)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

Official Name(s) of Product(s) Affected:

Rule Numbers:

February 5, 2016

**VIA ELECTRONIC PORTAL**

Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, DC 20581

**RE: CFTC Regulation 40.6(a) Certification. CME Clearing Advisory Notice for Performance Bond Collateral Categorization Changes. CME Submission No. 16-056**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME”) hereby self-certifies the attached draft CME Clearing Advisory Notice (“Notice”) regarding changes to the categorization of and percentage limits imposed on performance bond assets. This Submission shall be effective on Tuesday, February 23, 2016. The changes in the Notice are to be effective Friday, March 4, 2016.

The proposed changes are intended to simplify clearing member management of performance bond limits. Specifically the changes will (1) remove the existing 4-categories for classifying the 15 different asset classes (as listed in Exhibit A, attached hereto) that CME presently accepts as collateral, and (2) remove the percentage limits presently attached to each asset class within each of the 4 categories. In place of percentage limits, hard dollar limits will be imposed on 12 of the 15 different asset classes listed in Exhibit A, with the remaining 3 asset classes – cash, U.S. Treasuries<sup>1</sup> and IEF5 deposits – not being subject to any hard dollar limit.

The 15 different asset classes that CME presently accepts as performance bond collateral, and each of the particular assets within each such asset class, will remain unchanged. Four existing limits on asset classes will be changed as follows:

1. The \$1 billion limit on Foreign Sovereign Debt will be increased to \$5 billion (with sub-limits imposed on specific sovereigns, ranging from \$100 million to \$1 billion);
2. The \$5 billion limit on IEF4 will be decreased to \$2 billion;
3. The \$500 million limit on Physical Gold will be decreased to \$250 million; and
4. The aggregate \$1 billion limit on Stocks/ETFs collectively will be changed to an individual \$500 million limit on each of Stocks and ETFs individually.

In addition, two new limits will be imposed as follows:

1. A new \$2 billion limit will be imposed on Select U.S. Government Agencies; and
2. A new \$1 billion limit will be imposed on Select MBS.

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<sup>1</sup> As used herein, the term “U.S. Treasuries” does not include Treasury Inflation-Protected Securities (“TIPS”) or Separate Trading of Registered Interest and Principal of Securities (“STRIPS”), each of which would be subject to hard dollar limits.

The existing haircuts and sub-limits (other than the Foreign Sovereign Debt sub-limits noted above) associated with each of those particular assets will remain unchanged and the existing IEF2 diversification policy also will remain unchanged. The aggregate amount of collateral acceptable from the former Category 3 and Category 4 asset classes (U.S. Government Agencies, select MBS, TIPS, STRIPS, gold, IEF2, IEF4, foreign sovereign debt, Canadian Provincials, stocks and ETFs) will continue to be capped at \$7 billion per clearing member, including affiliates (hereinafter, the "\$7 Billion Cap"). The aggregate collateral from the former Category 4 asset classes (gold, IEF2, IEF4, foreign sovereign debt, Canadian Provincials, stocks and ETFs) will continue to be capped at \$5 billion per clearing member, including affiliates.

A summary of these proposed changes is set forth in Exhibit A, which is attached hereto.

Moving from the use of 4-categories with associated percentage limits to the use of hard dollar limits does not materially impact the nature or level of risks presented by CME. As of the date of this filing, the only immediate impact of the proposed changes would be that a single clearing member would need to reduce the amount of Swedish sovereign debt pledged as performance bond, which amount constitutes less than 1% of that clearing firm's total performance bond pledged to CME. Otherwise, the proposed changes would have no impact on CME's current collateral profile. Furthermore, the proposed changes would require no change to CME's existing \$7 billion credit facility, as a result of the continued applicability of the \$7 Billion Cap to each clearing member (including affiliates).

CME also anticipates that clearing members will have an easier time managing the composition of pledged collateral once the proposed changes are implemented. Some clearing members have reported challenges in efficiently managing the percentage limits associated with certain asset classes and collateral (in particular, U.S. Government Agencies and Agency MBS) while others have reported challenged in efficiently managing percentage limits across settlement accounts for futures and options products and cleared swaps products. The use of hard dollar limits for each asset class instead of 4-categories with associated percentages is designed to improve the efficiency with which collateral limits can be managed by CME's clearing members.

The proposed changes will apply to collateral accepted as performance bonds for Base Products, IRS Products and CDS Products (except for Letters of Credit, which are only acceptable collateral for performance bond for Base products).

CME reviewed the derivatives clearing organization ("DCO") core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA"). During the review, CME identified the following Core Principles as potentially being impacted:

- **Risk Management**: CFTC Regulation 39.13(g)(13) requires each DCO to apply appropriate limitations on the concentration of assets posted as initial margin, as necessary, in order to ensure its ability to liquidate such assets quickly with minimal adverse price effects, and shall evaluate the appropriateness of any such concentration limits, on at least a monthly basis. With one exception (as noted above), the proposed changes are not expected to result in any immediate impact the makeup of the collateral used by clearing members to meet their performance bond requirements. Furthermore, the existing haircuts and sub-limits associated with each of those particular assets would remain unchanged, except the changes to the four existing limits and the two new limits, as noted above.
- **Public Information**: CFTC Regulation 39.21(c)(7) requires that any matter relevant to participation in the clearing and settlement activities of the DCO be disclosed publicly. As with CME's existing collateral limits, the proposed changes would be made publicly available on CME's website.
- **Financial Resources**: CFTC Regulation 39.33(c)(1) requires each SIDCO to maintain eligible liquidity resources that, at a minimum, will enable it to meet its intraday, same-day and multiday obligations to perform settlements with a high degree of confidence under a wide range of stress

scenarios, including a default by the clearing member creating the largest aggregate liquidity obligation in extreme but plausible market conditions. The proposed changes will have no impact on the level of margin collected and will not decrease the qualifying liquidity resources available to CME in the event of a clearing member default.

The text of the draft CME Clearing Advisory Notice is provided in Exhibit B, which is attached hereto.

Pursuant to Section 5c(c) of the CEA and CFTC Regulation 40.6(a), CME certifies that the proposed amendments comply with the CEA and regulations thereunder. No substantive opposing views were expressed to this proposal.

CME certifies that this submission has been concurrently posted on CME Group's website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

If you require any additional information regarding this submission, you may contact me at 212.299.2200 or via e-mail at [CFTCSubmissionInquiry@cmegroup.com](mailto:CFTCSubmissionInquiry@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: Summary of Proposed Changes to Categorization of CME Acceptable Collateral  
Exhibit B: Draft CME Clearing Advisory Notice

## Exhibit A

### Summary of Proposed Changes to Categorization of CME Acceptable Collateral

(Former) Category	Asset Class	(Former) Percentage Limit	Proposed Hard Dollar Limit
1	Cash	100% of clearing member's performance bond requirement ("PB req.")	None <sup>2</sup>
	U.S. Treasuries	100% of PB req.	None
2	Letters of Credit <sup>3</sup>	Lesser of 25% of PB req. or \$500 million	\$500 million
	IEF5	100% of PB req.	None <sup>4</sup>
3	U.S. Government Agencies	40% of PB req.	\$2 billion
	Select MBS	40% of PB req.	\$1 billion
	TIPS	40% of PB req., but capped at \$1 billion per clearing member (incl. affiliates)	\$1 billion
	STRIPS	40% of PB req., but capped at \$1 billion per clearing member (incl. affiliates)	\$1 billion
4	Gold <sup>5</sup>	40% of PB req., but capped at \$500 million	\$250 million
	IEF2	100% PB req., but capped at \$5 billion per clearing member (incl. affiliates)	\$5 billion
	IEF4	40% of PB req., but capped at \$5 billion per clearing member (incl. affiliates)	\$2 billion
	Foreign Sovereign Debt	40% of PB req., but capped at \$1 billion per clearing member (incl. affiliates)	\$5 billion <sup>6</sup>
	Canadian Provincials	40% of PB req., but capped at \$100 million per clearing member (incl. affiliates)	\$100 million
	Stocks	40% of PB req., but capped together with ETFs at \$1 billion per clearing member (incl. affiliates)	\$500 million
	ETFs	40% of PB req., but capped together with Stocks at \$1 billion per clearing member (incl. affiliates)	\$500 million

<sup>2</sup> With respect to all foreign currencies, clearing members are subject to a \$250 million USDE limit across the entire firm relationship with CME for meeting requirements in a different currency.

<sup>3</sup> Letters of Credit are acceptable collateral for performance bond for Base products only.

<sup>4</sup> Limits exist at the program level and at the firm level.

<sup>5</sup> Gold is acceptable collateral for performance bond for House positions only.

<sup>6</sup> Sub-limits ranging from \$100 million to \$1 billion will be imposed on particular types of Foreign Sovereign Debt.

## Exhibit B



DATE: February 5, 2016  
TO: Clearing Member Firms  
FROM: CME Clearing  
SUBJECT: **Collateral Categorization & Limit Changes – Performance Bond**

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Effective March 4, 2016 at RTH cycle, pending regulatory approval, CME Clearing will remove the existing 4 categories for classifying the asset types that CME presently accepts from clearing members to meet performance bond requirements and the percentage limits presently attached to each asset type within each of the 4 categories. CME will impose hard dollar limits on each asset type other than cash, U.S. Treasuries (T-Bills, TFRNs, T-Notes, and T-Bonds) and IEF5.

The aggregate amount of collateral acceptable from the former Category 3 and Category 4 asset types (U.S. Government Agencies, Agency MBS, TIPS, STRIPS, gold, IEF2, IEF4, foreign sovereign debt, Canadian Provincials, stocks and ETFs) will continue to be capped at \$7 billion per clearing member, across affiliates.

The aggregate amount of collateral from the former Category 4 asset types (gold, IEF2, IEF4, foreign sovereign debt, Canadian Provincials, stocks and ETFs) will continue to be capped at \$5 billion per clearing member, across affiliates.

A summary of these changes is provided in Exhibit A, attached hereto.

For more information, please contact Bryan McBlaine at 312-338-2469 or Ryan Hajen at 312-634-8871.

## Exhibit A

### Summary of Changes to Categorization of CME Acceptable Collateral

(Former) Category	Asset Class	(Former) Percentage Limit	New Hard Dollar Limit
1	Cash	100% of clearing member's performance bond requirement ('PB req.')	None <sup>1</sup>
	U.S. Treasuries	100% of PB req.	None
2	Letters of Credit <sup>2</sup>	Lesser of 25% of PB req. or \$500 million	\$500 million
	IEF5	100% of PB req.	None <sup>3</sup>
3	U.S. Government Agencies	40% of PB req.	\$2 billion
	Select MBS	40% of PB req.	\$1 billion
	TIPS	40% of PB req., capped at \$1 billion per clearing member (incl. affiliates)	\$1 billion
	STRIPS	40% of PB req., capped at \$1 billion per clearing member (incl. affiliates)	\$1 billion
4	Gold <sup>4</sup>	40% of PB req., capped at \$500 million	\$250 million
	IEF2	100% PB req., capped at \$5 billion per clearing member (incl. affiliates)	\$5 billion
	IEF4	40% of PB req., capped at \$5 billion per clearing member (incl. affiliates)	\$2 billion
	Foreign Sovereign Debt	40% of PB req., capped at \$1 billion per clearing member (incl. affiliates)	\$5 billion <sup>5</sup>
	Canadian Provincials	40% of PB req., capped at \$100 million per clearing member (incl. affiliates)	\$100 million
	Stocks	40% of PB req., capped together with ETFs at \$1 billion per clearing member (incl. affiliates)	\$500 million
	ETFs	40% of PB req., capped together with Stocks at \$1 billion per clearing member (incl. affiliates)	\$500 million

<sup>1</sup> With respect to all foreign currencies, clearing members are subject to a \$250 million USDE limit across the clearing member and affiliates for meeting requirements in a different currency. Offshore Chinese renminbi is capped at \$200 million USDE per clearing member.

<sup>2</sup> Letters of Credit are acceptable collateral for performance bond for Base products only and not permitted for house PB requirements, for financial-affiliated clearing members.

<sup>3</sup> Limits exist at the program level and at the firm level.

<sup>4</sup> Gold is acceptable collateral for performance bond for House positions only.

<sup>5</sup> Individual sub-limits: U.K., Germany, Canada, France, and Japan \$1 billion each; Australia \$250 million; and Singapore and Sweden \$100 million each.