



Sean Downey
Senior Director and Associate General Counsel
Legal Department

March 28, 2014

VIA E-MAIL

Ms. Melissa Jurgens
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) Self-certification: CME Clearing Advisory Notices Aligning Performance Bond Categorization and Guaranty Fund Collateral Acceptance with CFTC Regulation 39.33 Requirements
CME Clearing Submission No. 14-114**

Dear Ms. Jurgens:

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 Notices regarding changes to guaranty fund asset eligibility and the categorization of performance bond assets, to be effective Sunday, April 13, 2014, for trade date Monday, April 14, 2014. CME is certifying these amendments to align its performance bond and guaranty fund collateral acceptance practices with liquidity resource requirements under CFTC Regulation 39.33.

CME is narrowing the range of acceptable collateral types for guaranty fund deposits to cash and U.S. Treasury Bills, Notes and Bonds with time to maturity of ten years or less. In conjunction with proposed CME/CBOT/NYMEX Rule 822,¹ these changes are designed to better position the utilization of clearing members’ guaranty fund deposits as qualifying liquidity resources under CFTC Regulation 39.33. The removal of IEF2, U.S. Agencies, and U.S. Treasury STRIPs and securities with time to maturity exceeding ten years does not materially impact the nature or level of risks presented by CME as the post-haircut risk profile of guaranty fund collateral deposits will be unchanged. Further, the impact to CME and its clearing firms is minimal as fewer than 22% of guaranty fund assets currently on deposit will have to be substituted in order to conform to the amended eligibility criteria.

CME is also re-categorizing its eligible performance bond collateral types so that the assets in each category meet the definition of qualifying liquidity resources under CFTC Regulation 39.33. Category 1 will consist only of assets that independently meet the criteria of qualifying liquidity resources. Category 2 and Category 3 will consist of assets that are qualifying liquidity resources due to being supported by CME’s credit facility. Amended Category 2 and Category 3 limits are designed to ensure such assets remain covered by CME’s credit facility and thus continue to meet the definition of qualifying liquidity resources. The specifics are as follows: collateral accepted under the IEF2 program will be moved from Category 1 to Category 3 and will be qualifying liquidity resources backed by CME’s credit facility; letters of credit and collateral accepted under the IEF5 program will be moved from Category 2 to Category 1 since cash and committed lines of credit are qualifying liquidity resources without being supported by CME’s credit facility; TIPS will be moved from Category 3 to Category 2 and STRIPs will be moved from Category 1 to Category 2 to align the assets and limits of Category 2 with the terms of CME’s credit

¹ See CME/CBOT/NYMEX Submission No. 13-565A.

facility; and the acceptance of stocks in Category 3 will be limited to \$1 billion per clearing member in alignment with borrowing base limits in the CME credit facility. Additionally, CME is capping IEF2 acceptance at \$5 billion rather than a percentage cap in order to mitigate the impact of re-categorization on its clearing membership. A summary of the changes is set forth in the charts below. The re-categorization and limits do not materially impact the nature or level of risks presented by CME as the post-haircut risk profile of deposited performance bond collateral deposits will be unchanged and no performance bond currently on deposit would have to be substituted to align with limits upon the re-categorization.

Guaranty Fund Acceptable Collateral

Current	New
<ul style="list-style-type: none"> Cash U.S. Treasury Bills/Notes/Bonds/Strips U.S. Agencies (<i>capped at 50% of total</i>) IEF2 (Money Market Mutual Funds) 	<ul style="list-style-type: none"> Cash U.S. Treasury Bills/Notes/Bonds * <p><i>* Time to maturity not to exceed 10 years</i></p>

Performance Bond Acceptable Collateral Categories and Limits

Current		
<u>Category 1</u> Cash U.S. Treasuries IEF2 (Money Market Mutual Funds)	<u>Category 2*</u> U.S. Government Agencies Select MBS Letters of Credit IEF5 (Interest Bearing Cash)	<u>Category 3**</u> TIPS (capped at \$1bn per firm) Gold (capped at \$500mm per firm) Stocks IEF4 (corporate bonds) Foreign Sovereign Debt (capped at \$1bn per firm)
	<i>*Capped at 40% of core requirement per currency requirement per firm</i>	<i>** Capped at 40% of core requirement per currency requirement per firm or \$5 billion per firm, the lesser of the two</i>

New	Category 2 & 3 Capped at \$7bn Per Firm	
<u>Category 1</u> Cash U.S. Treasuries IEF5 (Interest Bearing Cash) Letters of Credit*	<u>Category 2*</u> U.S. Government Agencies Strips TIPS (capped at \$1bn per firm) Select MBS	<u>Category 3**</u> IEF2 [†] (Money Market Mutual Funds) Gold (capped at \$500mm per firm) Stocks (capped at \$1bn per firm) IEF4 (corporate bonds) Foreign Sovereign Debt (capped at \$1bn per firm)
<i>*Capped at 40% of core requirement per currency requirement per firm</i>	<i>*Capped at 40% of core requirement per currency requirement per firm</i>	<i>** Capped at 40% of core requirement per currency requirement per firm or \$5 billion per firm, the lesser of the two</i> [†] Not included in the 40% requirement

CME reviewed the derivatives clearing organization 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:

- 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. A change to the performance bond categorization and limits may impact the makeup of the collateral used by a clearing member to meet its margin requirements. However, this change will have no impact on the level of margin collected and further serves to increase the qualifying liquidity resources available to CME in the event of a clearing member default. Narrowing the scope of acceptable guaranty fund collateral, in conjunction with the operation of proposed Rule 822, is designed to facilitate the ready availability of guaranty fund deposits to meet CME's settlement obligations in the event of a clearing member default.

- Default Rules and Procedures: CFTC Regulation 39.35 requires each SIDCO to adopt rules and procedures to address losses exceeding available financial resources. The proposed changes to guaranty fund collateral eligibility, in conjunction with proposed Rules 822.A.2 and 822.B are designed to address liquidity shortfall scenarios as required under CFTC Regulation 39.35.
- Risk Management: Regulation 39.13(g)(10) requires each derivatives clearing organization to limit the assets it accepts as initial margin to those that have minimal liquidity risk. Re-categorizing initial margin collateral so that all performance bond deposits are qualifying liquidity resources under CFTC Regulation 39.33 serves to reduce CME's overall liquidity risk and increase the flexibility CME has in executing its risk management responsibility as a derivatives clearing organization.

The text of the draft CME Clearing Advisory Notices are attached hereto as Exhibits A and B.

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. CME solicited input from its clearing membership to determine the potential impact of the proposed changes. There were no substantive opposing views to this proposal.

Notice of 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, please Suzanne Sprague at (312) 930 3260 or Suzanne.Sprague@cmegroup.com, or you may contact me at (312) 930-8167 or via e-mail at Sean.Downey@cmegroup.com.

Sincerely,

/s/ Sean Downey
Senior Director & Associate General Counsel

Attachment: Exhibit A: CME Clearing Advisory Notice (Guaranty Fund Asset Acceptance Changes)
Exhibit B: CME Clearing Advisory Notice (Performance Bond Category Changes)

EXHIBIT A



DATE: March 28, 2014
TO: Clearing Member Firms
FROM: CME Clearing
SUBJECT: **Guaranty Fund Asset Acceptance Changes**

On January 24, 2014, CME Clearing notified Clearing Member Firms of its plan to limit the collateral types available for the CME Clearing guaranty funds to **USD cash and U.S. Treasury Bills/Notes/Bonds*** via Clearing Advisory Notice 14-041. As noted in that advisory, these changes are designed to allow CME Clearing to better comply with the liquidity requirements of CFTC Regulation 39.33. However, CME Clearing has decided to extend the deadline for the changes to April 14, 2014, in light of the flexibility provided by the CFTC's ongoing no-action relief from the requirements of Regulation 39.33 from the CFTC, as well as to allow Clearing Member Firms an additional window to comply with the new requirements.

Please note that these changes will apply to all CME Clearing guaranty funds as of April 14, 2014, pending regulatory review, but will not be applicable to any guaranty fund for security-based swaps without approval from the Securities & Exchange Commission.

For more information, please contact CME Clearing Financial Unit at 312-207-2594 or CME Clearing Risk Unit at 312-648-3888.

* (Time to maturity not to exceed 10 years)

EXHIBIT B



DATE: March 28, 2014
TO: Clearing Member Firms
FROM: CME Clearing
SUBJECT: **Performance Bond Category Changes**

On January 24, 2014, CME Clearing notified Clearing Member Firms of its plan to amend the categorization and limits for some types of collateral eligible to meet performance bond requirements via Clearing Advisory Notice 14-040. As noted in that advisory, these changes are designed to allow CME Clearing to better comply with the liquidity requirements of CFTC Regulation 39.33. However, CME Clearing has decided to extend the deadline for the changes to April 14, 2014, in light of the flexibility provided by the CFTC's ongoing no-action relief from the requirements of Regulation 39.33 from the CFTC, as well as to allow Clearing Member Firms an additional window to comply with the new requirements.

Please note that the re-categorization of eligible performance bond collateral and imposition of associated acceptance limits set forth below will be applicable as of April 14, 2014, pending regulatory review, but will not apply to collateral eligible to meet performance bond requirements for security-based swaps without approval from the Securities & Exchange Commission.

Category 1

- USD Cash
- FX Cash+
- US Treasuries
- IEF5
- LOC*

Category 2*

- US Government Agencies
- Select MBS
- TStrips (cap \$1B)
- TIPS (cap \$1B)

Category 3**

- IEF2
- Foreign SOV Debt (cap \$1B)
- IEF4 (corporate bonds)
- Gold (cap \$500mm)
- Equities (cap \$1B)

*Capped at 40% of core requirement

** Capped at lesser of 40% of core requirement or \$5 billion per Clearing Member Firm

Not subject to 40% cap

+ \$250 million USD equivalent on FX cash meeting requirement in different currency

Category 2 and 3 cannot exceed \$7 Billion in USD equivalent.

For more information, please contact CME Clearing Financial Unit at 312-207-2594 or CME Clearing Risk Unit at 312-648-3888.