

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 17-053

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 02/09/17 Filing Description: Notification Regarding Changes to the OTC FX Risk Model for OTC FX Options

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 9, 2017

VIA ELECTRONIC PORTAL

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

**Regulation 40.10(a) Submission. Changes to the OTC FX Risk Model for OTC FX
Options
CME Submission No. 17-053**

Dear Mr. Kirkpatrick:

The clearing house division of Chicago Mercantile Exchange Inc. (“CME Clearing”), in its capacity as a registered derivatives clearing organization (“DCO”), hereby notifies the Commodity Futures Trading Commission (“CFTC”) that it intends to make certain changes to its OTC FX risk model to support the clearing of options on OTC FX (“OTC FX Options”) on the earlier of April 10, 2017, or the receipt of regulatory approval. CME Clearing currently accepts OTC FX spot, forward and swaps for clearing and intends to begin clearing of cash-settled OTC FX Options. Pursuant to this filing, CME Clearing is proposing enhancements to its OTC FX margin model to account for the clearing of OTC FX Options and is also proposing certain requirements for OTC Clearing Members (as defined in CME Rules) that clear OTC FX Options as further described herein. The proposed changes to the OTC FX risk model could materially affect the nature or level of risks presented by CME Clearing. Pursuant to CFTC Regulation 40.10, CME Clearing hereby submits this notice in which CME Clearing addresses the nature of the changes and their expected effects on risks and how CME Clearing plans to manage such identified risks.

OTC FX Margin Model Enhancements

CFTC Regulation 39.13(g)(2)(i) requires a DCO to establish initial margin requirements that are commensurate with the risks of each product and portfolio. Consistent with this regulation, CME will enhance its existing Historical Value at Risk (HVaR) based performance bond model for OTC FX to cover the additional risk factors presented by the clearing of OTC FX Options and will margin existing OTC FX and OTC FX Options on a portfolio basis.

The proposed enhancements will add a linear combination of margin components to the current HVaR model, including Stressed Value at Risk (SVaR), valuation uncertainty margin (VUM) and liquidity/concentration add-on. “SVaR” is a special case of the historical simulation which only uses as scenarios the dates when the largest historical moves of the risk factors occur. The SVaR margin component is included to mitigate the pro-cyclicality of the margins without violating the risk appetite and the level of conservativeness. “VUM” is a component that focuses on residual risks due to potentially larger price submissions during periods of stress. The “liquidity/concentration” component is an add-on, in addition to the base initial margin, that is designed to capture costs associated with hedging and auctioning relatively large portfolios.

CME Clearing's OTC FX margin model generates performance bond requirements that are sufficient to cover CME Clearing's potential future exposures to clearing members based on price movements in the interval between the last collection of settlement variation and the liquidation time in accordance with CFTC Regulation 39.13(g)(2)(ii). CME Clearing will continue to use a minimum liquidation time that is five days for OTC FX portfolios that include OTC FX

Options. CME Clearing's OTC FX margin model is designed to meet an established confidence level of at least ninety-nine percent as required by CFTC Regulation 39.13(g)(2)(iii). A description of the OTC FX Options enhancements to the OTC FX margin model is provided in the Confidential Supplemental Materials.

The existing Base financial safeguards will be utilized to cover exposures from OTC Clearing Members and will include OTC FX Options related stress scenarios to size the Base Guaranty Fund (which will not require any model changes). The Base financial safeguards will continue to provide protection beyond daily settlement variation and performance bonds.

Settlement Procedures

Pursuant to CFTC Regulation 39.14(b), CME Clearing effects a settlement with each OTC Clearing Member clearing OTC FX Options at least once each business day and has the authority and operational capacity to effect a settlement on an intraday basis either routinely, when specified thresholds are breached, or in times of extreme market volatility. CME Clearing will settle OTC FX Options using a proprietary model based on OTC FX Options market information provided by OTC Clearing Members clearing OTC FX Options pursuant to proposed CME Rule 8F018 attached hereto in Exhibit A. This proprietary model will calibrate a settlement price for OTC FX Options of different currency pairs, expiries, and relative moneyness. On a day that CME Clearing does not receive adequate OTC FX Options market information from OTC Clearing Members, it will supplement with third party data and run the proprietary model. There is no delivery settlement risk, because the affected contracts are financially settled. Additional detail regarding the settlement model and the processes that will be used to price OTC FX Options is provided in the Confidential Supplemental Materials.

CME certifies that the changes comply with the Commodity Exchange Act and the regulations thereunder. There were no substantive opposing views.

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 e-mail CMEGSubmissionInquiry@cmegroup.com or contact Jason Silverstein at 212-299-2228 or Jason.Silverstein@cmegroup.com. Please reference our CME Submission No. 17-053 in any related correspondence.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Enclosure: Exhibit A

EXHIBIT A

CME Rule 8F018 OTC FX Options Information Submissions

1. Each OTC FX Options Clearing Member shall submit the OTC FX Options Information Submission File on each Business Day at the time specified by the Clearing House for all FX Options required by the Clearing House. The information submitted by an OTC Clearing Member in the OTC FX Options Information Submission File shall be consistent with the information used by the OTC FX Options Clearing Member for its internal valuation of OTC FX Options.
2. During a calendar month that is not during a Base Cooling Off Period, an OTC FX Options Clearing Member will be assessed a penalty per Failed OTC FX Options Submission based on the following table:

| # of Failed OTC FX Options Submissions for that month | Penalty per Failed OTC FX Options Submission |
|---|--|
| 1 | 0 |
| 2 | \$5,000 |
| 3 | \$25,000 |
| 4+ | \$50,000 |

During a Base Cooling Off Period, an OTC FX Options Clearing Member will be assessed a penalty per Failed OTC FX Options Submission based on the following table:

| # of Failed OTC FX Options Submissions for that month | Penalty per Failed OTC FX Options Submission |
|---|--|
| 1 | 0 |
| 2 | \$15,000 |
| 3 | \$75,000 |
| 4+ | \$150,000 |

Penalties shall be assessed monthly and payable with the Base Guaranty Fund payment cycle. In addition, the OTC FX Options Clearing Member may be referred to the Clearing House Risk Committee for further discipline

1. As used herein:

“Failed OTC FX Options Submission” means a failure to submit (i) all or a portion of an OTC FX Options Information Submission File at or prior to the time designated by the Clearing House or (ii) the OTC FX Options Information Submission File in the proper format.

“OTC FX Options Clearing Member” means an OTC Clearing Member clearing OTC FX Options.

“OTC FX Options Information Submission File” means the file containing the requested market data, internal price levels and such other information as specified by the Clearing House for each money/expiry/currency pair combination.