

**SUBMISSION COVER SHEET**

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

Registered Entity Identifier Code (optional): 23-098

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

Filing as a:  DCM  SEF  DCO  SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 02/10/23 Filing Description: Modifications to the CME Operational Risk Management Framework

**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:**

February 10, 2023

**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

**Re: CFTC Regulation 40.6(a) Certification. Modifications to the CME Operational Risk Management Framework. CME Submission No. 23-098**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME” or “Clearing House”), as a derivatives clearing organization (“DCO”), certifies to the Commission modifications to the CME Operational Risk Management Framework (“ORMF”) effective on February 28, 2023 (collectively, the “Amendments”).

Consistent with CFTC Regulation 39.18(b), the ORMF is maintained by the Clearing House and establishes its practices to identify and minimize sources of operational risk, which could arise from its core clearing process. As described below, the ORMF is reviewed and approved on at least an annual basis. The Amendments were primarily approved as part of the annual review process.

The ORMF is approved by CME’s Risk Committee (i.e., committee established by the Board of Directors (“Board”))<sup>1</sup> and the Board at least annually. The Amendments covered in this year’s annual approval of the ORMF relate to the following three areas:

- i. **Operational Aspects of a Member Default:** While CME Clearing’s practice of employing processes to effectively manage the operational components of a clearing member default have not changed, the ORMF has been updated to specifically identify the potential inability to manage a clearing member default from an operational perspective as a key risk. This was previously captured under other key risks identified in the ORMF. Additionally, although CME Clearing does not believe this risk will materialize, this will provide for enhanced focus on the operational aspects of default management from a risk control and assessment perspective.
- ii. **Governance Arrangements:** The ORMF has been updated to reflect the further formalization of the Clearing House’s governance arrangements for operational risk management, consistent with broader practices. In particular, consistent with other Clearing House management committees, a written charter has been adopted to outline the responsibilities, criteria for membership, organization, and structure of the Operational Risk Management Team, which is now referred to as the Operational Risk Management Committee.

The ORMF changes also set out the roles and responsibilities more clearly for reviewing and

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<sup>1</sup> See <http://investor.cmegroup.com/static-files/86ce3be0-764a-4be6-b1b2-841b6a28af86>.

approving the ORMF and the Clearing House's overall operational risk management. With respect to the latter, consistent with prior updates to CME Clearing's Risk Management Framework ("RMF"), the ORMF has been updated to reflect that the Chief Compliance Officer ("CCO") of the Clearing House now serves as the Enterprise Risk Officer of the Clearing House.<sup>2</sup> In addition, similar to other risk management policies, the governance arrangements have been amended to provide the CCO of the Clearing House the authority to approve non-substantive changes to the ORMF, with the authority approved by the Nominating and Governance Committee (i.e., committee established by the Board).<sup>3</sup>

Finally, similar to risk management policies, the ORMF was updated to detail the governance that would be followed where rules filed with the CFTC are subject to minor modification in that review process.<sup>4</sup>

- iii. **Streamlining the ORMF Structure and General Documentation Enhancements:** Without changing the practices outlined in the ORMF, the structure of the ORMF has been updated to reduce repetitiveness and improve the clarity. Additionally, language in the ORMF has been updated, as appropriate, to align with the description of the practices in other risk management policies maintained by CME Clearing that are subject to the review and approval of the Clearing House Oversight Committee (i.e., committee established by the Board), such as the RMF. In addition, certain content has been removed entirely from the ORMF which is more appropriately, and fulsomely, covered in other documentation, such as the RMF.<sup>5</sup>

Finally, the updates to the ORMF include changes to simplify language and make the document more concise, as well as formatting changes to make the document consistent with CME Clearing's other risk management policies.

#### *DCO Core Principle Review*

CME reviewed the DCO core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA" or "Act") and identified that the Amendments may impact the following core principles:

- **DCO Core Principle A – Compliance:** The Amendments include references to standards considered relative to enterprise risk management and the Clearing House's enterprise risk officer.
- **DCO Core Principle D – Risk Management:** The Amendments further describe the Clearing House's risk management practices with respect to assessing and managing operational risk and enhance the ability of the Clearing House to effectively manage the risks associated with discharging the responsibilities of the DCO.
- **DCO Core Principle G – Default Rules and Procedures:** The Amendments further describe the Clearing House's risk management practices with respect to operational aspects of a clearing member default and reinforce the internal oversight of the operational aspects of CME Clearing's default management practices.
- **DCO Core Principle O – Governance Fitness Standards:** The Amendments more clearly

<sup>2</sup> CME Submission, No. 22-492 (Nov. 2022), available at <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2022/11/22-492.pdf>.

<sup>3</sup> CME Submission, No. 23-018 (Jan. 2023), available at <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2023/1/23-018.pdf>.

<sup>4</sup> CME Submission, No. 22-233 (June 2022), available at <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2022/6/22-233.pdf>.

<sup>5</sup> CME Clearing notes that the description of CME Clearing's regulatory framework, as well as references to the *Principles for financial market infrastructures* ("PFMIs"), were also removed because they are clearly articulated in 17 CFR 39 and the PFMIs themselves.

articulate the Clearing House's governance arrangements.

CME has requested confidential treatment with respect to the revised ORMF, which has been submitted concurrently with this certification. Exhibit A provides the ORMF in blackline format. For convenience, Exhibit B provides a clean version of the revised ORMF.

Pursuant to Section 5(c) of the Act and CFTC Regulation 40.6(a), CME certifies that the Amendments comply with the Act and regulations thereunder. There were no substantive opposing views to this action.

The Clearing House certifies that this submission has been concurrently posted on the Clearing House's website at <https://www.cmegroup.com/market-regulation/rule-filings.html>.

If you require any additional information regarding this submission, please contact me at 312-930-8167 or via email at [sean.downey@cmegroup.com](mailto:sean.downey@cmegroup.com).

Sincerely,

/s/ Sean Downey  
Managing Director - Clearing Chief Compliance Officer,  
Enterprise Risk Officer & Policy  
CME Clearing

Attachments: Exhibit A – Modifications to the Operational Risk Management Framework (attached under separate cover) (blackline format) (confidential treatment requested)  
Exhibit B – Modifications to the Operational Risk Management Framework (attached under separate cover) (clean version) (confidential treatment requested)