

**SUBMISSION COVER SHEET**

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

Registered Entity Identifier Code (optional): 16-058

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

Filing as a:  DCM  SEF  DCO  SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 02/23/2016 Filing Description: Expansion of Performance Bond Collateral Program to Include Mexican Government Debt and Issuance of CME Clearing Advisory Notice

**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: N/A

**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 23, 2016

**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. Notification Regarding Expansion of  
Performance Bond Collateral Program to Include Mexican Government Debt.  
CME Submission No. 16-058**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. (“CME”), a registered derivatives clearing organization (“DCO”) under the Commodity Exchange Act, as amended (“CEA” or “Act”), pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), is hereby self-certifying amendments to its acceptable performance bond collateral schedule (see Exhibit A, attached) and the text of its CME Clearing Advisory Notice (see Exhibit B, attached) regarding the expansion of its performance bond collateral program to include certain fixed rate bonds (“Bonos”) and short-term discount bills (“Cetes”) issued by the Mexican federal government (collectively, the “MXBs”). The proposed changes will become effective Monday, April 4, 2016.

Please note that Exhibit A to this Submission reflects revisions to the collateral schedule as outlined in CME Submission No. 16-056 dated February 5, 2016, which has been certified by the CFTC for effective date Friday, March 4, 2016.

**A. Diversification**

CME continues to align its collateral acceptance policy with the markets it serves, taking into account products and market participants and seeking to diversify its clearing member and collateral bases where appropriate. Collateral diversification is crucial to mitigating the need for collateral transformation by clearing members. Diversifying CME’s market participation reduces the concentration of potential negative effects of collateral liquidation during times of extreme market stress.

Acceptance of MXBs will diversify CME’s performance bond collateral base and enable posting of assets widely held by participants in Mexico, where CME is seeking local regulatory authorization to offer clearing services in advance of Mexico’s IRS clearing mandate, which is scheduled for implementation on April 16, 2016. Pursuant to requests by local participants, CME’s credit team evaluated MXBs’ collateral eligibility and recommended their acceptance to the CME Clearing House Risk Committee (“CHRC”). The decision to accept MXBs reflects the global nature of the CME’s markets—these instruments are likely to be held by, or accessible to, Mexican market participants. We believe accepting foreign sovereign debt subject to prudent risk management standards will increase participation by high quality financial institutions from foreign jurisdictions, increasing geographic diversification in CME markets.

**B. Liquidity Risk**

After examining these instruments’ liquidity profile in a stressed market environment, CME proposes MXBs in five residual time-to-maturity categories (less than 1 year; >1-5 years; >5-10 years; >10-30 years; and over 30 years) as eligible collateral for products that have a peso-denominated settlement obligation. To

better ensure liquidity is available to CME in times of market stress, the initial acceptance of MXBs will be subject to a sub-limit of \$100 million per clearing firm at any one time. CME will review this sub-limit in light of market demand and liquidity risk impact.

### C. Concentration Risk

The only product CME currently clears that has a peso-denominated settlement requirement and is therefore eligible for collateralization by MXBs is its cleared-only interest rate swap referencing Banco de México's TIIE interbank lending rate ("MXN IRS"). MXN IRS is CME's sixth-largest interest rate swap by currency based on USD-equivalent open interest. CME staff examined its current open interest in MXN IRS and determined that maximum utilization of MXBs for these exposures under the proposed limits would result in less than one percent (1%) of the aggregate performance bond on deposit consisting of MXBs. Even anticipating increased volume and open interest in MXN IRS and utilization of MXBs upon implementation of the Mexican clearing mandate, the per-clearing member limit on these instruments should result in them accounting for a *de minimis* portion of CME's overall collateral holdings.

### D. Collateral Risk

Acceptance of MXBs will not impact the overall nature and level of risk presented by CME as the level of performance bond requirement on deposit (on a post-haircut basis) will remain the same; only the constitution of CME's collateral holdings may change. CME examined MXBs' characteristics under its internal High Quality Liquid Asset (HQLA) model and against the collateral evaluation framework established by the Bank for International Settlements (BIS). The risk management standards, limit, and haircut schedule for MXBs are consistent with those for similar foreign-issued sovereign debt CME currently accepts as performance bond collateral. Permitting MXB posting only against peso-denominated obligations is designed to mitigate liquidity and foreign exchange risk. Consistent with the limits for other forms of acceptable collateral, sub-limits and haircuts will continue to be evaluated on an ongoing basis as the MXB markets continue to evolve.

In connection with the proposed acceptance of this new collateral, CME reviewed the DCO core principles ("Core Principles") and the subpart C regulations applicable to systemically important derivatives clearing organizations ("SIDCOs"), as set forth in the Act and CFTC regulations, and identified the following Core Principle as potentially being impacted:

- **Risk Management:** Regulation 39.13(g)(10) requires each DCO to limit the assets it accepts as initial margin to those that have minimal credit, market and liquidity risk. The proposed expansion serves to diversify the resources available to CME in the event of a clearing member default and to reduce potential concentration of CME's collateral holdings and thereby mitigate market and liquidity risk in a stressed market environment. The MXBs are capped at a per-firm level that conservatively accounts for anticipated same-day liquidity available for the instruments if sold in a stressed market. MXBs are eligible for pledge to CME's syndicated credit facility in case of a liquidity need. CME determined to accept MXBs as eligible collateral for peso-denominated requirements after examining the credit, market and liquidity risks of the instruments against CME's credit risk criteria and international standards for collateral evaluation. The MXBs will be monitored daily for price changes and will be subject to periodic review for eligibility, haircuts and limits.

Exhibit A sets forth the relevant changes to CME's acceptable performance bond collateral schedule, as proposed to be amended pursuant to CME Submission No. 16-056 and effective on Friday, March 4, 2016. The text of the CME Clearing Advisory Notice regarding acceptance of MXBs 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 expansion of its collateral program complies with the CEA and regulations thereunder. CME consulted with

market participants on the impact of the acceptance of MXB collateral on CME's markets. There were no substantive opposing views 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, please 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 Changes to CME Schedule of Acceptable Collateral (as proposed to be modified pursuant to CME Submission No. 16-056, dated February 5, 2016, for effective date March 4, 2016) (blacklined)  
Exhibit B: CME Clearing Advisory Notice 16-089

## EXHIBIT A

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

(amended schedule as outlined in CME Submission No. 16-056, filed with the Commission on February 5, 2016 for effective date Friday, March 4, 2016)

(additions underlined; deletions ~~overstruck~~)

(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; and Mexico \$100 million for peso-denominated obligations.

**Exhibit B**



TO: Clearing Member Firms  
Chief Financial Officers  
Back Office Managers

FROM: CME Clearing

ADVISORY #: 16-089

SUBJECT: Mexican Sovereign Debt

DATE: **February 24, 2016**

Effective Monday, April 4, 2016, and pending all relevant CFTC regulatory review periods, CME Clearing (CME) will accept Mexican sovereign debt (Cetes and Bonos) for Mexican peso-denominated performance bond requirements up to \$100 million USDE per clearing member firm, subject to the haircut schedule outlined below. Before pledging Cetes or Bonos, a mandatory test trade must be successfully completed. For testing specifics and questions regarding Mexican sovereign debt as eligible performance bond collateral, please call the Financial Unit at (312) 207-2594.

Asset Class	Description	Haircut Schedule				Notes
		Time to Maturity				
		0 to ≤ 5 years	>5 to ≤10 years	>10 to ≤ 30 years	>30 years	
Foreign Sovereign Debt	Discount Bills from the following country: • Mexico	5%				<ul style="list-style-type: none"> <li>Mexican debt is capped at \$100 million USDE per clearing member.</li> </ul>
	Bonds from the following country: • Mexico	6%	7.5%	9.0%	10.5%	<ul style="list-style-type: none"> <li>Mexican debt can only be used to meet Mexican peso-denominated requirements.</li> </ul>