

SUBMISSION COVER SHEET

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Registered Entity Identifier Code (optional): 21-119

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 03/03/21 Filing Description: Expansion of the Gold Warrant Collateral Program to Permit Clearing Members to Deposit COMEX Gold Warrants as Performance Bond in the Customer Origins

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:

March 3, 2021

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. Notification Regarding Expansion of the Gold Warrant Collateral Program to Permit Clearing Members to Deposit COMEX Gold Warrants as Performance Bond in the Customer Origins.
CME Submission No. 21-119**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. ("CME Clearing"), in its capacity as a derivatives clearing organization ("DCO"), pursuant to Commodity Futures Trading Commission (the "Commission") Regulation 40.6(a), hereby certifies that CME Clearing will accept Commodity Exchange, Inc. ("COMEX") gold warrants ("COMEX gold warrants") as performance bond with respect to a clearing member's customer segregated account and customer cleared swaps account (collectively, the "Customer origins"). This submission shall be certified on March 18, 2021 and implemented at a later date. CME Clearing will advise the marketplace and the Commission of the actual implementation date prior to the time such implementation becomes effective.

In CME Submission No. 19-283 dated July 29, 2019, Chicago Mercantile Exchange Inc., in its capacities as both a designated contract market ("DCM") and a DCO, The Board of Trade of the City of Chicago, Inc., ("CBOT"), New York Mercantile Exchange, Inc. ("NYMEX") and COMEX, in their capacity of a DCM, certified rule amendments to permit clearing members to deposit COMEX gold warrants with CME Clearing as acceptable performance bond in the House origin. In NYMEX/COMEX Submission No. 19-284, also dated July 29, 2019, NYMEX and COMEX certified amendments to NYMEX/COMEX Rules 703. ("Designation and Obligations of Metal Services Providers") and 705. ("Metal Warrants") to reflect that clearing members are permitted to pledge COMEX gold warrants to CME Clearing as performance bond and to prohibit a clearing member from cancelling a warrant that has been pledged to CME Clearing as performance bond. These amendments were made effective on November 4, 2019.

CME Clearing is seeking to expand its collateral program to permit clearing members to deposit COMEX gold warrants as performance bond in the Customer origins. Acceptance of COMEX gold warrants in the Customer origins will allow clearing members to pass customer collateral directly through to CME Clearing, which will provide efficiencies to clearing members and their customers by permitting them to monetize a generally idle asset.

CME Clearing will treat the gold warrant as the asset that is subject to the CFTC's segregation requirements. Additionally, CME Clearing will segregate the COMEX gold warrants deposited as performance bond through its inventory management system for electronic documents of title, Deliveries Plus. CME Clearing, through Deliveries Plus, will maintain a record of COMEX gold warrants deposited as performance bond and segregate customer assets by origin to ensure customer property is accounted for separately.

Similar to COMEX gold warrants deposited as performance bond in the House origin, clearing members will not receive performance bond credit until the relevant depository has confirmed that the warrant has transferred to CME Clearing on the books and records of the depository, thus ensuring that CME Clearing has control of the warrants under the Uniform Commercial Code.

There are no proposed changes to the gold collateral limit or gold collateral haircut. The \$750 million post-haircut gold collateral limit (inclusive of physical gold and COMEX gold warrants) per clearing member (and affiliates) will apply across the House and Customer origins, collectively. Market liquidity risks are minimized by evidence of large trading volumes in gold markets. The gold collateral limit represents approximately 0.81% of the average daily turnover across

derivatives, spot, and forward markets.¹ The gold collateral haircut of 15% is based on the observed volatility of the gold spot price² which assumes a two-day liquidation period and a qualitative buffer designed to address any additional liquidation costs.

As of January 29, 2021, seven clearing members utilize the gold warrant collateral program in the House origin with approximately \$3.34 billion in performance bond on deposit, which represents 1.60% of CME Clearing's total collateral holdings. CME Clearing anticipates that the collateral composition of specific clearing members may shift as a result of the proposed changes; however, CME Clearing does not believe the proposal materially impacts the risk profile of the Clearing House since clearing members will be required to comply and manage to the \$750 million gold collateral limit across all origins. Additionally, CME Clearing maintains the ability to secure a draw under CME's \$7 billion 364-day committed credit facility utilizing COMEX gold warrants on deposit in the Customer origins consistent with CFTC Regulations and CFTC segregation requirements.

In connection with these changes, CME reviewed the DCO core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA"). During this review, CME identified the following Core Principles as potentially being impacted:

Financial Resources: CFTC Regulation 39.33 provides in relevant part that a DCO qualifying liquid resources may include highly marketable collateral, so long as these assets are readily available and convertible into cash pursuant to prearranged and highly reliable funding arrangements under extreme but plausible market conditions. COMEX gold warrants satisfy this liquidity requirement in that CME's \$7 billion committed credit facility permits CME Clearing to pledge such instruments to secure a draw on the facility.

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 proposal will continue to diversify the resources available to CME Clearing in the event of a clearing member default and reduces the potential concentration of CME Clearing's collateral holdings, thus mitigating market and liquidity risk in a stressed market environment. Further, by limiting performance bond credit for physical gold and COMEX gold warrants to \$750 million per clearing member (and affiliates), these assets should only account for a de minimis portion of CME Clearing's overall collateral holdings. The expansion of the gold warrant collateral program to the Customer origins will not affect risk management due to the market liquidity in gold markets, the haircut applied assuming a two-day liquidation period, and the ability to secure a draw on CME's committed credit facility.

CME certifies that the rule amendments comply with the CEA 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 contact me at (212) 299-2200 or via e-mail at CMEGSubmissioninquiry@cmegroup.com. Please reference our CME Submission No. 21-119 in any related correspondence.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

¹ Derivatives includes COMEX gold futures average daily turnover of ~\$53.20 billion. CME trading volumes are aggregated across all COMEX gold futures contracts from 1/30/20 to 1/29/21. LBMA spot and forward average daily turnover is ~\$56.20 billion. LBMA trade volumes from 1/30/20 to 1/29/21 are sourced from LBMA-i (<https://www.lbma-i.com/market-data>).

² CME Clearing will continue to value COMEX gold warrants on deposit using the front-month COMEX gold futures price; however, the gold spot price was chosen as a proxy to calculate the price volatility for the gold collateral haircut.

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