

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 17-198

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 05/22/17 **Filing Description:** Revision to Liquidity Charge Computation in IRS Guaranty Fund Stress Testing

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:

May 22, 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

**RE: CFTC Regulation 40.6(a) Certification. Revision to Liquidity Charge
Computation in IRS Guaranty Fund Stress Testing
CME Submission No. 17-198**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME”) hereby notifies the Commission that it is self-certifying a revision to the methodology for computing liquidity risk in its IRS Guaranty Fund stress testing. The planned implementation date for this change is June 7, 2017.

CME currently approximates liquidity risk in the IRS stress loss calculation by increasing the period of risk from five days to seven days. CME proposes to move to a more-targeted approach to liquidity risk in its IRS Guaranty Fund by calculating stress loss using stress scenarios representative of five-day shocks with a targeted liquidity add-on.¹ Under the revised methodology, the approximation used to calculate liquidity charge will be replaced by a specific calculation based on a modelled liquidity risk factor. Previously, a 7-day period of risk was utilized for the purposes of guaranty fund calculation rather than a 5-day period of risk. The additional 2-day period was included as an approximation for liquidity risk. CME's new approach to guaranty fund calculation replaces the approximation represented by the 2-day extension to the period of risk with a specific liquidity risk charge that is precisely modelled pursuant to the robust data on the impact of liquidity on price movements. This more refined approach to addressing liquidity risk will enhance CME's already robust approach to guaranty fund sizing.

Based on analysis of portfolios as of the last business day for each of the prior seven months, the proposed methodology did not cause a decrease in the IRS Guaranty Fund size in any month and resulted in an average IRS Guaranty Fund size increase of 8.3% relative to the size calculated under the current methodology. Shifting portfolio composition and other factors may change this output in the future.

CME reviewed the derivatives clearing organization core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA” or “Act”) and identified that the proposed methodology may have some bearing on the following principles:

¹ The liquidity add-on is consistent with the charge described in Clearing House Advisory Notice #16-145, available at <http://www.cmegroup.com/notices/clearing/2016/04/Chadv16-145.pdf>.

- DCO Core Principle B – Financial Resources: DCO Core Principle B and regulations thereunder require CME to maintain financial resources sufficient to enable the clearing house to meet its financial obligations to clearing members notwithstanding a default by the two clearing members creating the largest exposure to the clearing house. CME will continue to meet its cover 2 requirements and the proposed revisions to the liquidity risk computation will not affect the apportionment of the mutualized layer of the waterfall. As noted above, the proposed methodology would have increased the overall IRS Guaranty Fund size in each of the prior seven months. Moving to a more-specific liquidity charge component in the clearing house's stress loss computation enhances the metric CME uses to determine the allocation of financial resources held in satisfaction of this Core Principle. With this more-accurate metric, CME is able to provide better-tailored financial resource calculations to our clearing members.
- DCO Core Principle D – Risk Management: DCO Core Principle D and regulations thereunder require CME to conduct stress testing of its financial resources using predetermined parameters and assumptions. The proposed enhancements are designed to reduce potential model risk and improve CME's ability to capture liquidity risk within its stress-testing framework by replacing the approximation method reflected in the current model with a more-tailored calculation.

CME certifies that proposed changes comply with the Act and regulations thereunder. There were no substantive opposing views to this action.

CME certifies that this submission has been concurrently posted on the CME Group 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 John McKinlay at 312-930-3028 or via email at John.McKinlay@cmegroup.com. Please reference CME Submission No. 17-198 in any related correspondence.

Sincerely,

/s/Christopher Bowen
Managing Director and Chief Regulatory Counsel