

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 22-207

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 06/28/22 Filing Description: Acceptance of Short-Term U.S. Treasury Exchange-Traded Funds as Performance Bond

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

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:

June 28, 2022

VIA ELECTRONIC PORTAL

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

**Re: CFTC Regulation 40.6(a) Certification. Acceptance of Short-Term U.S. Treasury Exchange-Traded Funds as Performance Bond
CME Submission No. 22-207**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc., in its capacity as a derivatives clearing organization (“DCO”) (“CME Clearing”), hereby self-certifies the attached draft CME Clearing Advisory Notice which sets forth modifications to CME Clearing’s schedule of acceptable collateral to include Short-Term U.S. Treasury Exchange-Traded Funds (“Short-Term UST ETFs”) as performance bond. The modification will be effective no sooner than July 14, 2022.

CME Clearing is seeking to permit clearing members to deposit Short-Term UST ETFs to meet Base and IRS performance bond requirements in the House, Customer Segregated, and Customer OTC origins. Short-Term UST ETFs are ETFs that invest predominantly in short-dated U.S. Treasuries and track a U.S. Treasury index based on a time to maturity of 1 year or less, and are further defined in the following paragraph. For background, CME Clearing currently accepts select equity and fixed income ETFs (“select ETFs”) as collateral up to \$500 million per clearing member and affiliates with additional security level sub-limits based on average daily volume, subject to a 30% haircut. Under this proposal, Short-Term UST ETFs pledged as performance bond will have an independent \$500 million collateral limit per clearing member and affiliates, subject to a 3% haircut. The distinct collateral limit and haircut proposed for Short-Term UST ETFs reflects the different liquidity profile of the asset type. Additionally, this haircut is higher relative to CME’s existing haircuts on U.S. Treasuries (0.5% to 1%) and money market funds (2%) with a similar maturity profile.

Short-Term UST ETFs are defined as ETFs that have (i) minimum 80% investment in U.S. Treasuries with a time to maturity of 1 year or less, (ii) a same-day redemption option via the primary market (cash or in-kind), and (iii) prospectus language substantively similar to redemption language described in CFTC Regulation 1.25(c)(5). Unlike select ETFs, Short-Term UST ETFs are not subject to a limit based on average daily volume due to the ability to monetize the asset on the primary market. The list of acceptable Short-Term UST ETFs will be reviewed by CME Clearing at least on a monthly basis and is subject to change pursuant to a set of acceptance criteria. Additionally, CME Clearing reserves the right to incorporate additional acceptance criteria. Lastly, to align with (i) the applicable SEC haircut and (ii) the mechanics of a redemption on the primary market, shares of Short-Term UST ETFs will only be accepted by CME Clearing in multiples of their respective creation/redemption unit size.

CME Clearing believes that Short-Term UST ETFs present minimal market, credit, and liquidity risks due to the strong credit and liquidity characteristics of the underlying assets within the fund, a conservative haircut capturing the inherent risks, and the ability to redeem shares for U.S. Treasuries or cash through a broker-dealer that either is an authorized participant (“AP”) or maintains AP relationships. Under this structure, CME Clearing could redeem shares of a Short-Term UST ETF through an AP on the primary market and receive either USD cash or the underlying U.S. Treasuries, which it could then immediately liquidate. Since APs are not unconditionally obligated to process redemption requests, CME will also maintain the ability to both liquidate shares on the secondary market and secure a draw with Short-Term UST ETFs under CME Inc.’s committed credit facility.

In connection with this change, CME Clearing reviewed the designated clearing organization core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA”). During the review, CME Clearing identified the following Core Principles as potentially being impacted:

Financial Resources: DCO Core Principle B and, notably Regulation 39.33, provides in relevant part that a DCO’s financial resources may include highly marketable collateral, including high quality, liquid, general obligations of a sovereign nation 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. As specified above, Short-Term UST ETFs satisfy this liquidity requirement as the instruments are eligible to secure a draw on CME Inc.’s committed credit facility.

Risk Management: Core Principle D and, notably 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 acceptance of Short-Term UST ETFs as performance bond will serve to further diversify the resources available to CME Clearing in the event of a clearing member default and to reduce potential concentration of CME Clearing’s collateral holdings, thereby mitigating market and liquidity risk in a stressed market environment. While CME Clearing may be at risk if a particular AP declines to process a redemption request, CME Clearing believes this risk is remote and has addressed this risk by ensuring that Short-Term UST ETFs are eligible to secure a draw under CME Inc.’s committed liquidity facility and by maintaining access to liquidate shares on the secondary market.

CME certifies that the above rules and 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 Christopher.Bowen@cmegroup.com. Please reference our CME Submission No. 22-207 in any related correspondence.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Exhibit A



TO: Clearing Member Firms
Chief Financial Officers
Back Office Managers

FROM: CME Clearing

Advisory #: 22-XXX

SUBJECT: Modifications to Schedule of Acceptable Performance Bond – Addition of Short-Term U.S. Treasury ETFs

DATE: July XX, 2022

Effective July XX, 2022, CME Clearing (CME) is amending its list of acceptable collateral to include certain Short-Term U.S. Treasury ETFs (“Short-Term UST ETF”). Short-Term UST ETFs will be acceptable for Base and IRS performance bond requirements in the House, Customer Segregated, and Customer OTC origins.

For background, CME Clearing currently accepts select equity and fixed income ETFs (“select ETFs”) as collateral up to \$500 million per clearing member and affiliates with additional security level sub-limits based on average daily volume, subject to a 30% haircut. However, Short-Term UST ETFs pledged as performance bond will have an independent \$500 million collateral limit per clearing member and affiliates, subject to a 3% haircut. The distinct collateral limit and haircut for Short-Term UST ETFs reflects the different liquidity profile of the asset type.

Short-Term UST ETFs track a U.S. Treasury index and are defined as ETFs that have (i) minimum 80% investment in U.S. Treasuries with a time to maturity of 1 year or less, (ii) a same-day redemption option via the primary market (cash or in-kind), and (iii) prospectus language substantively similar to redemption language described in CFTC Regulation 1.25(c)(5). The list of acceptable Short-Term UST ETFs will be published on CME’s website, CME Datamine, and reviewed by CME at least on a monthly basis.

Additionally, to align with (i) the applicable SEC haircut and (ii) the mechanics of a redemption on the primary market, shares of Short-Term UST ETFs will only be accepted by CME Clearing in multiples of their respective creation/redemption unit size.

CME currently utilizes The Depository Trust Company (“DTC”) as its custodian. To participate in this program, clearing members must either utilize a custodian bank or have an account with DTC.

Clearing members who post Short-Term UST ETFs as collateral with CME will be charged the same collateral fees as is listed in the [collateral fee schedule](#).

For collateral acceptance criteria, as well as information regarding limits and haircuts, please see the [Standard Acceptable Collateral and Resource website](#).

For questions regarding delivery instructions or testing, please contact ClearingHouseFinancial@cmegroup.com.

For all other questions, please contact Credit Risk at CreditRisk@cmegroup.com.