SUBMISSION COVER SHEET

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

Registered Entity Identifier Code (optional): 22-334

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

Filing as a: ☐ **DCM** ☐ **SEF** ☒ **DCO** ☐ **SDR**

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 08/16/22 Filing Description: Modifications to CME's Collateral Policy

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:

Sean Downey
Clearing Chief Compliance Officer & Head of Policy
CME Clearing

August 16, 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, DC 20581

Re: CFTC Regulation 40.6(a) Certification. Modifications to CME's Collateral Policy.
CME Submission No. 22-334

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's Collateral Policy effective on August 31, 2022 (the "Amendments").

The Collateral Policy is maintained by the Clearing House and substantive amendments must be approved by the Clearing House Risk Committee ("CHRC") and Clearing House Oversight Committee ("CHOC"). The Amendments have been approved by the CHRC and CHOC.

The Amendments are primarily with respect to increasing the hard-dollar based collateral limit imposed on the Clearing House's acceptance of standby and pass-through bank-issued letters of credit ("LOCs"). As background, CME accepts LOCs as performance bond collateral for exchange-listed derivatives and does not permit financial affiliated clearing members to post LOCs with respect to their house performance bond requirements. Furthermore, LOCs are primarily used by commercial end-users.

Currently, the collateral limit for LOCs, per clearing member, is the lesser of 25% of a clearing member's total Base products' performance bond requirement (applied per account class) or $500 million ("non-exempt limit"), unless an exemption is granted by the Clearing House. Under a limited exemption, the limit, per clearing member, is the lesser of 50% of a clearing member's total Base products' performance bond requirement (applied per account class) or $1 billion ("exempt limit"). Any amount in excess of the non-exempt limit must be posted by a clearing member on behalf of qualifying commercial end-users that meet the exemption requirements and must be approved by CME's internal Collateral Committee, which is comprised of senior-level staff of the Clearing House. The exemption requires representations and warranties from the qualifying commercial end-user that it is not a "financial entity," as defined in Section 2(h)(7)(C) of the Commodity Exchange Act ("CEA" or "Act").

The Amendments would increase the hard-dollar based collateral limit for LOCs to $1 billion for the non-exempt limit and $2 billion for the exempt limit; for the avoidance of doubt, the LOC percentage-based limits for both the exempt and non-exempt limits would remain at 25% and 50%, respectively. In addition, the methodology for how CME determines credit limits on the LOC issuing banks will also remain the same. CME is implementing the Amendments for a number of reasons. In particular, the Amendments are

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intended to better align the limits for LOCs with current market dynamics and further support the ability of commercial end-users to effectively hedge their business risks.

For background, the Clearing House has not adjusted its collateral limit for LOCs since 2014. Commensurate with market participants' exposures and increased volatility, the total amount of performance bond on deposit has appropriately increased since 2014, but the non-exempt and exempt limits for LOCs have remained constant. More recently in early 2022, increased volatility has been observed in commodities' markets and as noted above, commercial end-users predominantly utilize LOCs, since they commonly rely on LOCs to finance hedging of physical exposures via exchange-listed derivatives.[1] In line with this, utilization of LOCs has increased which is consistent with increases to performance bond requirements. By way of example, wheat prices increased approximately 75% in the last two-years,[2] which directly impacts commercial end-users hedging the price of physical wheat via wheat futures. Such hedgers would not only require financing for the more expensive physical wheat purchased, but also the performance bond required by the Clearing House, which, in theory, would increase by the same percentage above (even with assuming volatility remains constant). Thus, increasing the hard-dollar based collateral limit for LOCs not only recognizes current market dynamics and price inflation across a variety of commodities markets, but also allows commercial end-users to more effectively hedge risk.

While increasing the hard-dollar based collateral limit for LOCs would have significant benefits for commercial end-users' management of business risks, it will not have a material impact on the nature or level of risks faced by the Clearing House. In particular, the expected portion of LOCs posted to CME relative to total collateral on deposit will not materially change as a result of the Amendments. As a point of comparison, although the amount of LOCs posted to CME has increased in recent years, the portion of LOCs posted relative to total collateral on deposit has remained relatively constant, between 1% and 2%. Pursuant to the Amendments, if all clearing members doubled their current levels of total LOCs posted, LOCs would still represent only 4% of total collateral on deposit, provided that all other factors remain constant. Notwithstanding this, the restrictions on the ability of clearing members to post LOCs (e.g., exchange-listed derivatives only and criteria for the exempt limit) and percentage-based limit will remain the same.

In addition, the Amendments shall remove the regulatory approval history section of the Collateral Policy, as well as other non-substantive, clarifying modifications.

DCO Core Principle Review

CME reviewed the DCO core principles ("Core Principles") as set forth in the CEA and identified that the Amendments may have some bearing on the following Core Principle:

- DCO Core Principle D – Risk Management: While the Amendments may increase the use of LOCs as performance bond, CME does not believe this will materially affect its risk management. Consistent with CFTC Regulation 39.13(g)(10) and (13), LOCs have minimal, credit, and liquidity risks and the proposed increases to the hard-dollar based collateral limit for LOCs will not negatively impact CME's ability to draw on such LOCs quickly.

CME has requested confidential treatment with respect to the revised Collateral Policy, which has been submitted concurrently with this self-certification. CME certifies that the Amendments comply with the Act and regulations thereunder. There were no substantive opposing views to this action.

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[1] *See* Jill Cetina, Matthew McCormick & Pon Sagnanert, *Commodity Financing Markets Shaken by Russia Invasion; Monitoring for U.S. Financial Stress*, Federal Reserve Bank of Dallas (April 14, 2022), https://www.dallasfed.org/research/economics/2022/0414.

[2] The average price of front month wheat futures was $5.49/bushel in 2020 and is $9.58/bushel in 2022, year-to-date.

If you require any additional information regarding this submission, please contact me at 312-930-8167 or via email at sean.downey@cmegroup.com. Please reference CME Submission No. 22-334 in any related correspondence.

Sincerely,

/s/Sean Downey
Clearing Chief Compliance Officer & Head of Policy
CME Clearing

Attachment: Exhibit A – Modified Collateral Policy (blackline format) (attached under separate cover) (confidential treatment requested)