

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 17-166

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): September 6, 2017 Filing Description: Amendments to CME Rule 8G802.B.

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: CME Rule 8G802.B.

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:

September 6, 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. Notification Regarding Amendments to CME Rule 8G802.B. ("Satisfaction of Clearing House Obligations").
CME Submission No. 17-166**

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 amendments to CME Rule 8G802.B. ("Satisfaction of Clearing House Obligations") (the "Rule Amendments") effective on September 21, 2017.

IRS default management involves up to two phases. Phase 1 is a hedging phase where CME would hedge the IRS portfolio of the defaulted IRS Clearing Member through voluntary hedge transactions. Phase 2 is an auction phase where IRS Clearing Members are required to bid on the remaining defaulted IRS portfolio and associated hedges from Phase 1.

The Rule Amendments are designed to incentivize non-defaulted IRS Clearing Members to voluntarily participate as bidders for hedge transactions which would mitigate risk of a defaulted IRS Clearing Member portfolio(s). Specifically, CME is proposing to seniorize the application of a portion of the IRS Guaranty Fund contribution of an IRS Clearing Member that wins a hedge transaction (such winning IRS Clearing Member, the "IRS Winning Bidder"). The size of the IRS Guaranty Fund is unaffected by the Rule Amendments.

Currently, the utilization of the IRS Guaranty Fund is based on bidding performance in Phase 2 auctions and is divided into three categories: seniorized, maintained, and juniorized. The additional amount subject to seniorization for winning a hedge transaction will be based on a percentage determined for such IRS Clearing Member at the time of the related hedge transaction in accordance with CME's IRS default management procedures, which will initially be the product of:

- (i) 75%;
- (ii) (a) the lesser of (1) the IRS Guaranty Fund of the Defaulted IRS Clearing Member, and (2) IRS Guaranty Fund of the IRS Winning Bidder, divided by (b) the IRS Guaranty Fund of the IRS Winning Bidder;
- (iii) the Defaulted IRS Clearing Member's shortfall in a given currency before hedging (calculated as the excess of the stressed exposure in such currency over the amount of performance bond required for such currency), divided by the sum of Defaulted IRS Clearing Member's shortfalls for all currencies in which both the Defaulted IRS Clearing Member and the IRS Winning Bidder have open IRS positions;
- (iv) the performance bond required for such hedge transaction divided by the aggregate performance bond required for all requested hedge transactions, and

- (v) the notional amount of such hedge transaction awarded to the IRS Winning Bidder divided by the total notional amount of such hedge transaction.

Any IRS Guaranty Fund deposits that are seniorized will be applied to IRS Losses on a pro rata basis, after the subordinated and maintained deposits are applied to IRS Losses in accordance with CME Rules.

Core Principle Review

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

- DCO Core Principle B – Financial Resources. The Rule Amendments will only alter the utilization of the IRS Guaranty Fund based on the bidding behaviour of IRS Clearing Members in hedge transactions. The size of the IRS Guaranty Fund will not be impacted by the Rule Amendments.
- DCO Core Principle G – Default Rules and Procedures. The Rule Amendments are consistent with CME’s obligations to adopt rules that set forth its default procedures, including obligations that the DCO imposes on its clearing members to participate in default management actions.
- DCO Core Principle L – Public Information. The Rule Amendments will be added to the publicly available CME Rulebook available on the CME Group website. In addition, CME will release a notice to the marketplace regarding the amendments in advance of the effective date.
- DCO Core Principle R – Legal Risk. CME has determined that the Rule Amendments are consistent with the requirement to have a well-founded, transparent and enforceable legal framework for each aspect of the activities of the DCO.

Exhibit A, which is attached hereto, sets forth the Rule Amendments in blackline format.

CME certifies that the 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 contact the undersigned at 212-299-2200 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachment: Exhibit A – Rule Amendments to CME Rule 8G802.B. (blackline format)

Exhibit A

CME Rulebook

CHAPTER 8-G

Interest Rate Derivative Clearing

(additions underlined; deletions are ~~overstruck~~)

CME RULE 8G802.B. Satisfaction of Clearing House Obligations

1. Application of Clearing House and non-defaulting IRS Clearing Member contributions

If the IRS Collateral and the IRS Customer Collateral, as described in Rule 8G802.A, is insufficient to cover the IRS Loss produced by the default, the Clearing House shall cover, or reduce the size of, such IRS Loss by applying the following funds to such losses in the order of priority as follows (the "IRS Priority of Payments"):

(i) First, the corporate contribution of CME for IRS Products (the "CME IRS Contribution"), which shall equal \$150,000,000;

(ii) Second, the IRS Guaranty Fund (excluding the contribution of the defaulted IRS Clearing Member), which shall be applied in the following manner:

(a) the IRS Guaranty Fund contribution of a Subordinated Category 1 Bidder (if any) will be applied first up to an amount equal to the Aggregate Subordinated Amount for such Category 1 Bidder and where there is more than one Category 1 Bidder, an amount of the IRS Guaranty Fund of each Category 1 Bidders equal to the relevant Aggregate Subordinated Amounts of such Subordinated Bidders will be applied on a *pro rata* basis until the entire IRS Loss is allocated; then, to the extent not all IRS Losses have been applied after application pursuant to this sub-section (a);

(b) the (remaining) IRS Guaranty Fund of all IRS Clearing Members (excluding an amount of the IRS Guaranty Fund of each Winning Bidder equal to the Final Aggregate Seniorized Amounts for such Winning Bidders) will be applied *pro rata* until the entire IRS Loss is allocated; then, to the extent not all IRS Losses have been applied after application pursuant to this sub-section (b); and

(c) the (remaining) IRS Guaranty Fund of all Winning Bidders will be applied *pro rata*;

(iii) Third, IRS Assessments against all IRS Clearing Members (excluding any defaulted IRS Clearing Members), which shall be assessed against each non-defaulted IRS Clearing Member *pro rata* in proportion to their required contributions to the IRS Guaranty Fund in accordance with Rule 8G07. Assessments against non-defaulted IRS Clearing Members shall be subject to a maximum of the maximum IRS Assessment assigned to such IRS Clearing Member pursuant to Rule 8G07 at the time of the default, and also subject to the limits set forth in Rule 8G802.H in the case of multiple successive defaults.

Non-defaulted IRS Clearing Members and their customers shall not take any action that would interfere with the ability of the Clearing House to collect and apply assets and proceeds in accordance with this Rule 8G802.B, including, but not limited to, attempting to obtain a court order. Determinations under this

Rule 8G802.B that are based upon an IRS Clearing Member's IRS Guaranty Fund deposit and/or IRS Assessment requirement shall be based upon the requirement in effect at the time of the default.

As used herein,

~~"Auction Portfolio" has the meaning given to it in the IRS Default Management Guidelines.~~

"Aggregate Subordinated Amount" means the sum of all subordinated amounts as determined by the Clearing House in accordance with ~~has the meaning given to it in the IRS Default Management Guidelines.~~

"Final Aggregate Seniorized Amount" has the meaning given the sum of all seniorized amounts as determined by the Clearing House in accordance with ~~to it in the IRS Default Management Guidelines.~~

~~"Bid Ratio" has the meaning given to it in the IRS Default Management Guidelines.~~

"Subordinated Category 1 Bidder" means an in respect of each auctioned portfolio, the IRS Clearing Member(s) whose IRS Guaranty Fund contribution is subject to subordination as determined by the Clearing House in accordance with IRS Clearing Member designated by the Clearing House pursuant to the IRS Default Management Guidelines as having (a) not submitted a Valid Bid or (b) submitted a bid with a Bid Ratio equal to or greater than 50% in each case in respect of a Competitive Auction.

~~"Competitive Auction" has the meaning given to it in the IRS Default Management Guidelines.~~

"IRS Default Management Guidelines" means the IRS Default Management Guidelines of the Clearing House.

~~"Valid Bid" has the meaning given to it in the IRS Default Management Guidelines.~~

"Winning Bidder" means, in respect of each ~~Auction Portfolio~~ auctioned portfolio, the IRS Clearing Member(s) designated as such by the Clearing House at the end of an auction in respect of such ~~Auction Portfolio~~ auctioned portfolio.