

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 18-392

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 09/19/2018 **Filing Description:** Amendments to CME Rule 8G04. ("IRS Clearing Member Obligations and Qualifications") to Implement Mandatory IRS Clearing Member Participation in Liquidity Polls

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- | | | |
|-------------------------------------|-------------------------------------|------------|
| <input checked="" type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Notification | § 40.6(d) |
| <input type="checkbox"/> | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> | SIDCO Emergency Rule Change | § 40.10(h) |

Rule Numbers: 8G04

New Product

Please note only ONE product per Submission.

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|--------------------------|---------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.2(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.23(a) |
| <input type="checkbox"/> | Certification Swap Class | § 40.2(d) |
| <input type="checkbox"/> | Approval | § 40.3(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.23(b) |
| <input type="checkbox"/> | Novel Derivative Product Notification | § 40.12(a) |
| <input type="checkbox"/> | Swap Submission | § 39.5 |

Official Product Name:

Product Terms and Conditions (product related Rules and Rule Amendments)

- | | | |
|--------------------------|---|----------------------|
| <input type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Certification Made Available to Trade Determination | § 40.6(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.24(a) |
| <input type="checkbox"/> | Delisting (No Open Interest) | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Approval Made Available to Trade Determination | § 40.5(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.24(c) |
| <input type="checkbox"/> | Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| <input type="checkbox"/> | "Non-Material Agricultural Rule Change" | § 40.4(b)(5) |
| <input type="checkbox"/> | Notification | § 40.6(d) |

Official Name(s) of Product(s) Affected:

Rule Numbers:

September 19, 2018

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 8G04. (“IRS Clearing Member Obligations and Qualifications”) to Implement Mandatory IRS Clearing Member Participation in Liquidity Polls. CME Submission No. 18-392

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME” or “Clearing House”) hereby notifies the Commission that it is self-certifying amendments to CME Rule 8G04. (“IRS Clearing Member Obligations and Qualifications”) (the “Rule Amendments”) to make IRS Clearing Member participation in liquidity polls (“Liquidity Polls”) mandatory, effective on October 4, 2018.

Liquidity Polls are designed to estimate the cost of liquidating a hypothetical portfolio under distressed market conditions. CME utilizes the results of Liquidity Polls to calibrate the liquidity component of the IRS margin model. The liquidity add-on is collected as part of a call for performance bond and serves as an additional layer of protection, beyond the base margin requirement, when liquidating a large portfolio and is designed to protect non-defaulting clearing members from the risk of mutualization where an IRS Clearing Member with this type of portfolio defaults.

CME conducts Liquidity Polls semi-annually and retains the option to conduct additional Liquidity Polls as it deems necessary. Participation in Liquidity Polls is currently voluntary. A high participation rate and concurrent submission of results by IRS Clearing Members are critical to achieve reliable results. The voluntary nature of Liquidity Polls today presents challenges to achieving sufficient participation and timeliness. Accordingly, the Rule Amendments will oblige IRS Clearing Members to participate in Liquidity Polls for all currencies in which an IRS Clearing Member has an open interest unless explicitly exempted by CME.

To facilitate compliance with this requirement and to enhance the reliability of Liquidity Poll results, CME is introducing a penalty framework for IRS Clearing Members that fail to submit required data by a specified deadline. Such penalties will amount to either \$25,000 or \$50,000, depending on the number of currencies that such IRS Clearing Member fails to submit, and the number of currencies in which that Clearing Member has open interest. An IRS Clearing Member may opt to not submit responses for up to two currencies, depending on the number of currencies in which that Clearing Member has open interest, without penalty. However, failure to submit responses for the same currency in two consecutive Liquidity Polls will result in a mandatory penalty of \$25,000, exclusive of any other applicable penalties and/or disciplinary action. Such fixed penalty amounts are payable to the Clearing House no later than the due date for payments resulting from the subsequent recalculation of IRS Clearing Members’ IRS Guaranty Fund contributions. The

penalties will be additive to CME's contribution to the IRS Guaranty Fund provided for in the CME Rules. In addition to monetary penalties, repeated failure to satisfy obligations for Liquidity Polls may result in the IRS Clearing Member being referred to the IRS Risk Committee for disciplinary action.

The Rule Amendments further provide that an IRS Clearing Member with de minimis exposure in a given currency may apply for and be exempted from the mandatory participation requirement in such currency for the upcoming Liquidity Poll. Each such exemption would be granted on a per-currency basis and be valid only for that Liquidity Poll.

Lastly, the Rule Amendments introduce a requirement for Liquidity Poll submissions to be signed off upon by a senior trader or a head of the relevant trading desk at the IRS Clearing Member (or its affiliate) to better ensure data integrity.

The aforementioned provisions will be further specified in CME Mandatory Liquidity Poll Guidelines available to IRS Clearing Members upon request.

Core Principle Review

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

- Core Principle B – Financial Resources. The Rule Amendments are designed to increase participation in Liquidity Polls with the aim to enhance the quality of submissions. The submissions will be used in part to compute the liquidity add-on component of CME's IRS performance bond calculation. A more targeted add-on will better ensure CME's compliance with its obligations under this Core Principle and benefit clearing members by tailoring performance bond requirements to reflect the liquidity profile of large portfolios, thus protecting non-defaulting IRS Clearing Members that could otherwise bear the mutualized risk resulting from the default of an IRS Clearing Member with a large portfolio.
- Core Principle C – Participant Eligibility. Each IRS Clearing Member is required to have the necessary personnel and operational capacity to meet the obligations resulting from mandatory participation in Liquidity Polls.
- Core Principle D – Risk Management. Responses to each Liquidity Poll inform the liquidity add-on component of CME's IRS performance bond calculation. Appropriate coverage of liquidity risk better ensures that performance bond requirements are commensurate with the risks of large IRS Clearing Member portfolios.
- 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.

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

CME certifies that the Rule Amendments comply with the Act and regulations thereunder. There were no substantive opposing views to the Rule Amendments.

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 me 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 Chapter 8G (blackline format)

Exhibit A

Rule Revisions to Implement Mandatory Participation in Hedging Auctions

(additions underlined; deletions ~~overstruck~~)

CME Rulebook

Chapter 8-G

Interest Rate Derivative Clearing

8G04. IRS CLEARING MEMBER OBLIGATIONS AND QUALIFICATIONS

IRS Clearing Members shall be subject to the requirements for IRS Clearing Members set forth in Chapter 8G and Rule 8F04, all CME Rules applicable to IRS Products, and the Clearing House Manual of Operations unless an exemption has been granted by the Clearing House Risk Committee or the IRS Risk Committee, as applicable. In addition, IRS Clearing Members are subject to all CME, CBOT and NYMEX Rules, as applicable, when clearing products traded on, or subject to the rules of, CME, CBOT or NYMEX. IRS Clearing Members must execute all agreements and documents required by the Clearing House.

An IRS Clearing Member must satisfy the requirements set forth below:

...

7. Each IRS Clearing Member shall participate in each IRS Liquidity Poll ("Poll") for each IRS Product currency in which the IRS Clearing Member has open interest, unless exempted by the Clearing House for that currency. A Clearing Member's failure to provide required Poll submissions by the deadline established by the Clearing House may result in the IRS Clearing Member being assessed a monetary penalty up to \$50,000 and/or referred to the IRSRC for disciplinary action, in accordance with established CME Clearing procedures. Assessed penalties shall be added to the CME IRS Contribution within the IRS Priority of Payments as outlined at CME Rule 8G802.B.

~~7.8.~~ Each IRS Clearing Member shall use systems and appropriate procedures to track accurately, and to provide to the Clearing House accurately, the IRS positions and collateral of each of its cleared swaps customers.