

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 18-424

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 10/04/18 Filing Description: Modifications to CME Clearing's Schedule of Acceptable Performance Bond Collateral

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: See filing.

New Product

Please note only ONE product per Submission.

- | | | |
|--------------------------|---------------------------------------|------------|
| <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 |

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:

October 4, 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, D.C. 20581

**Re: CFTC Regulation 40.6(a) Certification. Chicago Mercantile Exchange Inc.'s Clearing Advisory Notice Regarding Modifications to CME Clearing's Schedule of Acceptable Performance Bond Collateral.
CME Submission No. 18-424**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. ("CME" or "CME Clearing"), pursuant to Commodity Futures Trading Commission (the "Commission") Regulation 40.6(a), hereby self-certifies the attached draft CME Clearing Advisory Notice which sets forth modifications to CME Clearing's Schedule of Acceptable Performance Bond Collateral (the "Schedule"), effective October 22, 2018.

The CME Clearing Advisory Notice informs clearing members and market participants that, effective October 22, 2018, CME Clearing will modify its Schedule of Acceptable Performance Bond Collateral in the following manner:

- Turkish lira will be removed from eligibility from the Schedule as the CME Group Exchanges no longer list products with margin requirements in Turkish lira.
- CME Clearing currently accepts a variety of foreign exchange ("FX") cash to meet performance bond requirements, including Danish Krone, Czech Koruna, Hong Kong Dollar, Hungarian Forint, Polish Zloty, Singapore Dollar, and South African Rand. However, these currencies currently can only be used to meet performance bond requirements denominated in each respective currency. CME Clearing intends to remove this limitation to harmonize its treatment of such currencies with the treatment of other FX cash that may be utilized for performance bond credit at CME Clearing. As a result, clearing members will be permitted to use these currencies to satisfy their performance bond requirements in any currency, subject to the cross-currency haircuts specified by CME Clearing. There are no changes to CME Clearing's current limit of \$250 million USDE limit across the clearing member and affiliates on all foreign currency meeting a requirement in a different currency.
- CME Clearing currently limits the aggregate amount of physical gold, money market funds, corporate bonds, non-US foreign sovereign debt, Canadian provincial debt, stocks, and ETFs used to meet performance bond requirements to \$5 billion USDE per clearing member (and affiliates). Foreign sovereign debt issued by Canada, France, Germany, and the United Kingdom will no longer be included in this aggregate limit. However, such debt will continue to be subject to individual sovereign limits of \$1 billion per clearing member (and affiliates). The change to the \$5 billion limit is consistent with the concentration limits in CME's existing \$7 billion committed credit facility.

- CME Clearing is officially decommissioning the “IEF5 – Cash with Interest” program as CME currently pays interest on USD cash balances pledged to meet performance bond and guaranty fund requirements. As a result, clearing members no longer need to participate in this program to earn interest on USD cash balances.

The proposed changes are intended to simplify clearing member management of performance bond collateral and increase flexibility when FX cash and certain foreign sovereign debt are utilized for performance bond credit. Furthermore, the proposed changes will not require a modification to CME’s existing \$7 billion credit facility or CME’s \$500 million committed FX swap facility.

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

Financial Resources: 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. The foreign sovereign debt specified above satisfies the liquidity requirement in that CME’s committed liquidity facility permits CME to pledge such debt subject to certain concentration limits. In addition, the FX cash specified above satisfies the liquidity requirement in that it may be exchanged for other FX cash under CME’s committed FX swap facility, subject to certain concentration limits. The changes described above do not impact a clearing member’s total margin requirement; however, dependent upon the composition of collateral pledged, the performance bond value of such collateral may vary as a result of cross-currency haircuts.

Risk Management: 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. While the changes herein may increase the use of certain FX cash and foreign sovereign debt as performance bond, CME believes that the changes do not materially affect risk management due to the liquidity of these assets as assessed using CME Clearing’s Liquidity Risk Management Framework, the applicable haircuts, and the ability to pledge the foreign sovereign debt as collateral under CME’s committed liquidity facility or exchange one foreign currency for another foreign currency under CME’s committed FX swap facility.

The text of the draft CME Clearing Advisory Notice, which provides additional information on the changes, is attached hereto as Exhibit A.

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. 18-424 in any related correspondence.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachment: Exhibit A – CME Clearing Advisory Notice

300 Vesey Street New York, NY 10282 t 212 299 2200 f 212 299 2299 christopher.bowen@cmegroup.com cmegroup.com

Exhibit A

CME Group | Advisory Notice

TO: Clearing Member Firms
Chief Financial Officers
Back Office Managers

FROM: CME Clearing

Advisory #: [To be determined]

SUBJECT: Collateral Changes for Performance Bond Requirements

DATE: [To be determined]

Effective October 22, 2018, CME Clearing will implement the below changes to its schedule of acceptable performance bond collateral.

- Turkish lira will be removed from eligibility from the CME Clearing's Schedule of Acceptable Performance Bond Collateral (the "Schedule") as CME Group no longer lists products with margin requirements in Turkish lira.
- CME Clearing currently accepts a variety of foreign exchange ("FX") cash to meet performance bond requirements, including Danish Krone, Czech Koruna, Hong Kong Dollar, Hungarian Forint, Polish Zloty, Singapore Dollar, and South African Rand, which can only be used to meet performance bond requirements denominated in each respective currency. CME Clearing intends to remove this limitation, permitting clearing members to use these currencies to satisfy their performance bond requirements in any currency, subject to cross-currency haircuts and CME Clearing's current limit of \$250 million USDE limit across the clearing member and affiliates on all foreign currency meeting a requirement in a different currency.
- CME Clearing currently limits the aggregate amount of physical gold, money market funds, corporate bonds, non-US foreign sovereign debt, Canadian provincial debt, stocks, and ETFs used to meet performance bond requirements to \$5 billion USDE per clearing member (and affiliates). Foreign sovereign debt issued by Canada, France, Germany, and the United Kingdom will no longer be included in this aggregate limit. However, such debt will continue to be subject to individual sovereign limits of \$1 billion per clearing member (and affiliates).
- CME Clearing will no longer offer the "IEF5 – Cash with Interest" program. For information regarding the interest rate pays on USD cash balances please refer to <https://www.cmegroup.com/clearing/financial-and-collateral-management/files/rates-on-cash.xls>.

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

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

